1987-1988 BUDGET

Budget Speech
and Additional Information

Delivered before the National Assembly
by Mr. Gérard D. Levesque,
Minister of Finance,
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Gouvernement du Quebec
**Ministère des
Finances**

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Introduction

Our government was elected on a platform that accorded priority to economic growth and job creation, but it is clear that such a basic objective can only be achieved on the basis of sound public finances. In 18 months we have made great strides toward restoring Québec to financial health; it is certainly not the moment to slacken our efforts in this regard. I shall talk first, therefore, about the objectives the government intends to pursue in this respect between now and the end of our mandate.

A sound economy is a big step towards sound public finances; in 1986, economic growth in Québec was 3.3 percent, surpassing the Canadian average and placing Québec among the leaders of the industrialized economies, for the OECD countries together recorded a growth of about 2.5 percent. In our capacity as the governing body, we can only congratulate ourselves. Our efforts have borne fruit and confidence has been restored.

This improvement in economic conditions was manifest on a number of fronts: housing starts resulted in more than 60 000 units in 1986, the highest in 10 years; consumer spending continued its rapid rise; and non-residential private investment in relation to the gross domestic product rose above 8 percent for the first time since 1980.

This good performance resulted in the creation in 1986 of 62 000 new jobs, most of them full time. The unemployment rate therefore went down, dropping from 11.8 percent in 1985 to 11 percent in 1986. And the situation on the labour market improved even more since the begining of the year. Despite this progress, overall unemployment is declining too slowly, especially for the young, among whom unemployment fell from 18 percent in 1985 to 16.9 percent last year. These figures reveal the extent of what remains to be done. In this Budget I shall explain the measures we will adopt this year to assure Quebecers of the economic development they have a right to expect.

Another part of my Speech will be devoted to the action I intend to take with a view to increasing social justice and improving the taxation system. Although the reform of the Québec taxation system and the major changes contained therein will not be finalized for several months, I will announce this evening a number of measures designed to immediataly make our taxation system fairer, increase the incentive to work and improve the situation of families and particular groups.

Lastly, I will explain the ways in which the government intends to finance its expenditures in 1987-1988, and give the outlook for the financial framework over the next three years.

This evening's Budget Speech will indicate many concrete measures in various sectors. In it, the government reviews its management of public finances and announces the policies it intends to pursue during the coming year. It is also an effective vehicle for specifying high-priority programs.

State of public finances

I will say it again: our priority objectives of economic growth and job creation can only be achieved if public finances are sound. The progress made in this respect over the past year has been remarkable. The deficit has been reduced to less than $2 900 000 000; the growth of the debt has been slowed down; borrowings in the public sector are now more in line with investments; and improvements have been made to the government's accounting practices on the basis of the Québec Auditor General's recommendations. In addition, this progress was made despite a reduction of more than $300 000 000 in federal transfers.

1986-1987

Budgetary gap of $1.5 billion

The situation was clearly less bright, and very worrying, the day after the elections, when we examined the government's books. Corrective measures were wanted, and fast.

The budgetary gap to be dealt with in 1986-1987 amounted to $1 505 000 000. The document I presented to the people of Québec in March last year explained in detail the origin and the nature of this discrepancy. Let me briefly remind you that, in the Budget Speech of April 1985, the Minister of Finance at the time presented his three-year forecast for the government's financial framework, according to which the budgetary deficit for 1986-1987 would be $2 970 000 000. A month after this Budget Speech, the government raised its expenditure forecast for the same year by $753 000 000. Moreover, it stopped taking for granted anticipated budget cutbacks of $455 000 000 and lowered revenue forecasts by $54 000 000. In effect, from the end of May 1985, the deficit forecast for 1986-1987 was no longer $2 970 000 000 but $4 232 000 000.

Then came the election of December 1985. To make Québec's taxation system more competitive, our government accelerated the reduction of marginal tax rates and abolished the surtax on fuel in peripheral regions. Consequently, the deficit estimated for 1986-1987 was changed to $4 475 000 000. The budgetary gap to be resolved in order to reduce it to the $2 970 000 000 indicated in the April 1985 Budget Speech therefore stood at $1 505 000 000.

Rigorous measures had to be taken. Spending was reduced by $1 050 000 000 compared with what had been provided for at the time the gap was made public; tax increases totalling $251 000 000 were introduced and various measures were instituted to recover budgetary revenue.

Financial results

The plan for immediate action to balance the 1986-1987 Budget was a severe one, but it achieved the desired results. According to data now available, expenditure, revenue and the deficit are essentially the same as forecast. I am very pleased to be able to announce this, for it is a performance that few governments can equal this year. Let us look in greater detail at how the government's financial transactions developed last year.

STATEMENT OF FINANCIAL TRANSACTIONS SUMMARY (in millions of dollars)

	1985-1986	1986-1987		
		Budget Speech 1986-05-01	Preliminary Results	Change
1. Budgetary transactions				
Revenue	+ 24 270.0	+ 25 585.0	+ 25 585.0	—
Expenditure	– 27 710.3	– 28 480.0	– 28 480.0	—
Deficit	– 3 440.3	– 2 895.0	– 2 895.0	—
2. Non-budgetary transactions				
Investments, loans and advances	+ 132.9	+ 150.0	– 401.0	– 551.0
Retirement plans account	+ 1 269.0	+ 1 365.0	+ 1 353.0	– 12.0
Provision for water-purification program	—	—	+ 9.0	+ 9.0
Other accounts	+ 298.5	– 300.0	+ 184.0	+ 484.0
Balance	+ 1 700.4	+ 1 215.0	+ 1 145.0	– 70.0
3. Net financial requirements	– 1 739.9	– 1 680.0	– 1 750.0	– 70.0
4. Financing				
Change in cash position	– 18.1	+ 80.0	– 90.8	– 170.8
Change in long-term debt	+ 1 758.0	+ 1 600.0	+ 1 840.8	+ 240.8
Total	**+ 1 739.9**	**+ 1 680.0**	**+ 1 750.0**	**+ 70.0**

N.B.: A (–) sign indicates a financial requirement and a (+) sign, a source of financing. For the change in cash position, a (-) sign indicates an increase and a (+) sign, a decrease.

Expenditure

First of all expenditure. In the Budget Speech last May, I estimated that expenditures would total $28 480 000 000. Constant vigilance on the part of the Conseil du trésor and the great discipline practised by government departments allowed us to achieve our goal. But what is remarkable is that these results were achieved when the government had just negotiated contracts with its employees. This means that the higher costs arising from the increases in the government offers were financed by the reduction of other expenditures. For 1986-1987, the additional cost of collective agreements compared to what had been anticipated in May last year was $164 500 000.

Revenue

The estimated budgetary revenue was also realized. However, own-source revenue was $375 000 000 greater than forecast, mainly because of higher personal income tax receipts. Hydro-Québec's net earnings totalled $303 000 000 in 1986, an increase of $170 000 000 arising from more favourable conditions, in particular a greater than expected demand for electricity.

However, Commission des normes du travail surpluses were only recovered early in the current fiscal year. Revenue from the privatization of various government-controlled assets, which was estimated at $175 000 000, came to only $29 000 000. The reason for this is that the sale of Donohue assets owned by Dofor, a subsidiary of the Société générale de financement du Québec, which generated revenues of some $150 000 000 for the government, will only be completed in the 1987-1988 fiscal year.

Federal transfers dropped by $375 000 000 in relation to the amount forecast.

Deficit

In short, we shall have succeeded in limiting our deficit to the level forecast in the last Budget Speech, despite lower federal transfers, despite the fact that the sale of Donohue shares will only be concluded this year, and despite the signing of collective agreements that were slightly more generous than expected.

Federal transfers

Rectifying the financial position would certainly have been easier to achieve if there had not been a change in federal transfers. Instead of increasing in the normal way, these transfers have decreased by more than 5 percent in absolute value over the past three years. These payments are now only 23.4 percent of our total budgetary revenue whereas in 1983-1984 they constituted as much as 28.9 percent of that revenue. Therefore, the financial constraints such a development imposes on our efforts to tidy up our financial position becomes more understandable.

Federal transfers should begin to rise in the next few years, but unsatisfactorily, since the federal government, through Bill C-96, created a shortfall for Québec last year which will amount to over $2 billion by 1991-1992. If we add to this the measures adopted by the federal government in 1982 and 1983, the loss the Québec government will suffer between 1982 and 1992 totals close to $6 billion.

Moreover, the Canadian Minister of Finance is going to propose very shortly a fiscal reform that will profoundly alter the Canadian financial and budgetary framework. The new federal taxation structure will have major effects on the distribution of the federal tax burden among the provinces. Its impact will be just as important with regard to the provinces' ability to collect own-source revenue comparable to that they now collect, as to the value of federal transfers for equalization and for health and higher education. Briefly, to ensure that provinces receiving equalization payments will not be penalized by this reform, it is essential to review the whole fiscal arrangement structure. It is for this reason that I recently proposed to the federal Minister of Finance that the federal government and the provinces should undertake an exhaustive re-examination of the fiscal arrangements starting this summer. A study of this kind is already totally justified; with the tax reform it will become imperative.

Accounting policies

The 1986-1987 reform

In last year's Budget Speech, I announced a reform of the accounting practices used in presenting the government's financial statements. These modifications to accounting practices were the result of comments by the Auditor General, who for several years had been suggesting that the public accounts should more faithfully reflect the government's financial position.

The new methods force the government to adopt more efficient management practices. With the old method, a government corporation's financial situation could deteriorate for a long time before the effects were apparent in the government's financial framework. Consequently, it was not only easy, but tempting, to let government corporations with a deficit borrow in order to delay recording as an expenditure subsidies granted to cover their losses. The changes made in methods of accounting for government investments in such corporations in the 1986-1987 Budget are thus a very strong incentive to exercise greater control over the transactions of government corporations, ensure better management of these corporations and deal with them in a responsible manner.

The modifications in accounting practices introduced last year are a true indication of the desire to present clear, precise and careful accounts. They obviously increase the pressure inherent in the management of revenue and expenditure, but there is no help for it.

Dealing with the retirement plans

There is another problem to be solved, that of accounting for and evaluating public service retirement plan commitments.

The methods used by the gouvernement du Québec in presenting its retirement plan commitments are on the whole quite rigorous compared to methods used elsewhere in Canada. Certain improvements must nevertheless be made if they are to conform to the latest recommendations of standard-setting bodies for actuarial and accounting practices and for all commitments to be accounted for systematically.

Recording of all government commitments

To this end, as of April 1, 1987, the government will enter as expenditure the sums required to reflect the full current service cost of the retirement plans for members of the Sûreté du Québec and the magistrature. The other elements of commitments which, to date, have been charged against expenditures or not recorded at all will, in future, be entered as amortizations. Under these measures, all government retirement plan commitments will be fully recorded at term as liabilities.

Valuation method

Finally, the actuarial valuation method recommended by the Canadian Institute of Chartered Accountants, namely the unit credit actuarial cost method prorated for years of service, will be used in future to establish retirement plan costs and commitments to be entered.

With these modifications, which are described in greater detail in Appendix C, and the reform of accounting policies carried out last year, the Québec government is now in the vanguard in presenting accounts for all of its operating results and its financial position.

The deficit policy

Although Québec's public finances have improved markedly over the past year, our work is not finished. The deficit must be cut back yet further.

Medium-term deficit

In *The Need for Immediate Action* I deplored the fact that the Québec government had to face the last recession without the flexibility necessary to allow automatic stabilizers to adjust. On the contrary, it was compelled to increase taxes and carry out a series of stringent cutbacks in the midst of the recession. To avoid a recurrence of this situation, and after the fifth consecutive year of economic upturn, our government deems it a top priority to reduce the deficit.

Reducing the deficit is all the more important since the government's total debt, that is, its direct debt and its liabilities respecting retirement plans as at March 31, 1987 is $35 328 000 000, or 31 percent of the gross domestic product.

Substantial deficits, incurred repeatedly, have increased Québec's debt to such an extent that 14 percent of government budgetary revenue is currently used to pay interest on the debt, without reducing the capital. The corresponding figure in 1977-1978 was only 5 percent.

This inexorable growth in revenue earmarked for interest payments must be halted. Doing so would enable us to more readily find the funds needed to solve genuine problems in Québec society. Would it not be more satisfying to devote to tax reductions or high-priority spending programs the hundreds of millions of dollars spent each year to pay the growing interest on the debt?

If the vicious circle of deficit-interest payments-deficit is to come to an end, our debt must stop growing at a greater rate than the collective wealth. Such is the aim of this government. By the end of our term in office, we will have stabilized the ratio of the debt to the GDP; and to achieve this end, by 1989-1990, we will have brought the deficit below the $2 billion mark, unless the economic situation takes a turn for the worse.

Objective for 1987-1988

Results recorded in 1986-1987 and the objective to be attained in 1989-1990 are now known; the rate at which this reduction will be made has yet to be established.

Deficit reduced to $2 400 000 000 in 1987-1988

In last May's Budget Speech, I anticipated that the deficit would drop to $2 705 000 000 in 1987-1988. I am proud to announce this evening that it will be reduced even further, to $2 400 000 000, a decrease of $495 000 000 in relation to last year.

Part of the improvement in the government's financial situation is attributable to greater economic growth. It is important to use the resulting funds to improve the government's financial flexibility. Several transactions enabling the government to divest itself of various assets in certain government-controlled corporations will only be completed in 1987-1988. For the coming year, $215 000 000 is forecast in this respect, which is a capital gain on an investment made several years ago. It would hardly be opportune to allocate such a gain to financing current and recurrent expenditures. Such capital gains must be used to reduce the growth of Québec's debt, not to pay for the groceries.

The government's decision to reduce its deficit more rapidly will enable it to put public finances in order more quickly. If the economic situation gives us a boost, so much the better. Our fundamental objectives have not changed and if we succeed in achieving them, our financial position will have improved remarkably.

In the meantime, the government does not intend to stand idly by. It is time to take up various challenges and to move boldly ahead in developing Québec economically and socially.

Economic growth and job creation

As I mentioned earlier, Québec is showing obvious signs of economic recovery. More than ever, Quebecers have confidence in their future. Results recorded in 1986 are a good indication of this, and the outlook for 1987 seems equally favourable, especially when we consider that it will be the fifth consecutive year of growth since the last recession. Québec's economic performance in 1987 should compare advantageously with that of most of its trading partners, with a growth rate of 2.7 percent.

Nevertheless, our own medium-term forecasts and those of other agencies point to the conclusion that current underemployment will be absorbed only very gradually over the coming years. In both the United States and Canada, forecasts for medium-term annual growth barely top 3.0 percent. Since Québec exports approximately 40 percent of its output, these trends among our main trading partners will impose constraints on the future growth of our economy. Further reductions in unemployment and increased use of production capacity will not occur automatically. In the coming years, this will be achieved through more concerted effort by all economic agents.

Now that our efforts to tidy up public finances are beginning to bear fruit, the increase in our production potential can once again become our top priority. This evening's Budget includes important measures for creating more favourable conditions for Québec entrepreneurs, by supporting their dynamic nature and their technological initiative.

Finally, the purpose of this Budget is not only to increase our economic potential but also to extend economic development to all Québec's regions. I am convinced that the outcome will be better job opportunities for the unemployed and for young people entering the labour force.

Research and development

Above all, creating jobs in Québec means making Québec business firms competitive on both domestic and international markets. Today, successful firms are those that meet consumers' needs with the best products at the best prices. To do so, businesses must use the results of basic research and keep abreast of all the latest scientific and technological developments. The businesses that succeed in the high-tech field are often those benefiting from the presence of institutions specialized in research with which they have created mutually profitable links. For this reason, universities are an essential component of technological innovation in the Québec economy.

Unfortunately, Québec and Canada lag far behind in this area. In 1983, the portion of expenditure earmarked for research and development represented 1.1 percent of Québec's GDP, compared to 1.7 percent of Ontario's and 1.4 percent of Canada's. In the other industrialized countries, this proportion is much higher, that is, 2.6 percent in Japan and Germany and 2.7 percent in the United States.

In the Québec government's view, job creation means significantly stepping up support to innovation in Québec. This Budget provides such support on four different levels.

Universities

The first concerns support for Québec universities, which form a network whose excellence is recognized; but we cannot ask them to help us win the battle of technological progress while leaving them in a difficult financial position. We must support their research efforts and help them solve their financial problems.

Last fall, when the Commission parlementaire de l'éducation sur les orientations et le cadre de financement du réseau universitaire québécois completed its deliberations, my colleague, the Minister of Higher Education and Science, said he would carry out a sweeping reform of university funding. Until that time, immediate assistance must be provided. I am announcing the following measures.

Funding base

First, an additional $15 000 000 per academic year will be granted to the universities to permanently raise their funding base. Institutions put at a disadvantage by the current funding formula will be given priority.

Deficits

Moreover, $8 000 000 in 1987-1988 and $7 000 000 in 1988-1989 will be granted to universities to help eliminate their deficits. I would like to make it perfectly clear that the allocation of these funds to the universities will be contingent upon their submitting deficit elimination plans.

Purchases

To bolster the universities' research capacity, $44 000 000 will be made available to them over the next four years. Assistance will be granted to defray costs incurred to purchase scientific equipment and relevant reference material and to finance indirect research costs. For the coming academic year, as much as $17 000 000 will be allocated for these purposes.

Human resources in business

Second, support will be provided for human resources in business to encourage innovation. Québec must be able to attract the world's best researchers in the disciplines it wishes to develop. Very often, these scholars graduate from our universities; the time has come to create the environment needed to keep them here.

Tax credit equivalent to
20 percent of wages

Generally speaking, personal income tax for such researchers is higher in Québec than in Ontario or the United States. In 1983, a refundable tax credit equal to 10% of the wages paid for research and development was introduced to permit firms carrying out research in Québec to at least partially offset the difference between Ontario and Québec in this area. At present, the tax credit for R&D and the low taxation rates under Québec's tax system give definite advantages to profitable high-tech firms. Moreover, the refundable tax credit benefits small fledgling businesses that are not generally taxable. We will now take another step in this direction to foster research and development in Québec. As of midnight tonight, this tax credit will be increased from 10 percent to 20 percent and reserved for corporations, since there will be other provisions applicable to individuals. For a full taxation year, this will cost Québec $43 000 000.

Tax holiday for foreign researchers

It is sometimes difficult for firms to find researchers in Québec or elsewhere in Canada with the necessary qualifications; these people must, therefore, be recruited abroad. To assist firms to this end, I am hereby announcing a 24-month tax exemption from personal income tax for these highly-qualified foreign researchers. Appendix A on Fiscal and Budgetary Measures, which is an integral part of this Speech, explains how this measure will operate.

Synergy between universities and the private sector

Tax credit equivalent to 40 percent of costs

A third type of support is aimed at bolstering collaboration between universities and businesses, which is crucial to innovation today. In order to promote greater synergy between them, I am announcing an increase from 20 percent to 40 percent in the tax credit granted corporations for wages paid for R&D in universities. Moreover, not only wages but all R&D spending in universities will be eligible for these tax incentives. In this way, we will take fuller account of the fundamental nature these activities and their future profitability. This measure should cost some $6 000 000 over a full year.

Risk capital

Fourth, support will be provided to raise risk capital to finance research and development. The survival rate of innovative ideas, that is, their transformation into a marketable product, is extremely low; certain studies estimate it to be less than 5 percent. To date, the financial risks inherent in R&D have resulted in its being concentrated in established firms where earnings have permitted such activities.

However, it has become increasingly evident that a number of growing firms often smaller than established ones are much more innovative than large ones, probably because of their taste for risk. I will not give specific examples as I could not do justice to all these growing businesses whose innovation and vitality make them successful. In recent months, there have been several examples of David teaching Goliath a lesson.

133 1/3 percent deduction

166 2/3 percent deduction

Québec is blessed with go-ahead firms that want to penetrate world markets but need access to risk capital in order to become involved in R&D. I am therefore announcing a tax benefit for individuals who provide risk capital by investing in research and development, especially through partnerships. This tax benefit will result in an additional 33 1/3 percent deduction for all research and development expenditures incurred in Québec in addition to the 100 percent deduction currently available. This further deduction will replace, for individuals, the tax credit I have just raised to 20 percent for corporations. Moreover, when such expenditures are made under a university research contract, the additional deductions for individuals will be raised to 66 2/3 percent.

I expect that over a full year, these measures will cost Québec $46 000 000.

Federal credit

In addition, to increase the effectiveness of tax benefits associated with scientific research and experimental development expenditures, the federal investment tax credit will no longer reduce the deductible amount of such expenses for Québec income tax purposes. This will cost $7 000 000 a year.

Overall, $102 000 000 will be allocated annually to research and development in Québec firms. The amount granted to universities will be $40 000 000 beginning in the 1987-1988 academic year. These measures are evidence of our determination to speed up Québec's growth in the sectors that promise most for the future.

Public investment

For a number of years, Québec has recorded a considerable downturn in public investment. Whereas government and public agencies' investments represented 7.8 percent of GDP in 1977, they represent only 4 percent today. Budgetary cutbacks and the slowdown in Hydro-Québec's construction program are the main causes of this reduction.

Our government's efforts to step up the development of Hydro-Québec are well known, and are beginning to bear fruit. Major export contracts have been signed, and the investment plan is ahead of schedule. In 1987, for the first time since 1981, Hydro-Québec investments will increase rather than decrease.

This Budget will add $125 000 000 to government subsidized capital expenditures. The budget increase granted by the government is directed essentially at two main sectors: roads and highways and health. The lion's share of these investments will be made in Québec's peripheral regions. Details on these investments are given in the appendix on Fiscal and Budgetary Measures.

Road and highway system

The year 1986 was one of the best ever for Québec road safety: there were fewer accidents and, especially, fewer road accident victims. The number of people who died on Québec roads was down 24.4 percent compared to 1985, whereas this same indicator was up 1.3 percent in the other provinces as a whole. Results like these are reflected in substantial savings.

Moreover, because of the favourable economic situation and effective rehabilitation programs for road accident victims, the Régie de l'assurance automobile du Québec recorded a surplus. It is normal for these amounts to be returned to drivers, especially in the form of reduced insurance premiums and capital expenditures related to highway safety.

Highway safety

Consequently, over the next two years, the Régie de l'assurance automobile du Québec will pay the Québec government a total of $200 000 000 for capital expenditures on highway safety throughout the Québec road and highway system. In the coming weeks, the Minister of Transport will announce work to be carried out and $60 000 000 will be earmarked for such projects this year. I am confident that spinoff from this program will help improve the road and higway system and highway safety.

Automobile insurance

I am also pleased to announce an average reduction of more than 10 percent in contributions to Québec's automobile insurance plan, for a decrease of some $50 000 000 on an annual basis. The Minister of Transport will publish the new rates in the coming weeks and they will come into effect on August 1.

Health

Through various measures, our government has frequently indicated the importance it attaches to health. This evening, I am making public two series of measures we plan to adopt with regard to capital expenditures in this sector.

Equipment

I am announcing the acceleration of the program for upgrading medical equipment, through a $20 000 000 allocation. Medical technology is currently making great strides and it appears essential for hospitals to keep abreast of new technological developments.

The Outaouais region

I would like to emphasize that $4 000 000 of this new budget will be allocated to the Outaouais region; recipient hospitals will have to hire staff and obtain new equipment. An additional operating budget of $5 000 000 will be granted them for this purpose.

Buildings

Over the next three years, a further $20 000 000 will be invested in upgrading or replacing certain buildings in private health care and social services establishments.

It should be noted that these funds are being added to $35 000 000 in appropriations already earmarked for upgrading facilities in 1987-1988.

All told, the investments I have just announced will raise Québec public sector capital expenditures to $5 600 000 000 in 1987, an 11.2 percent increase over the previous year and a record in this sector.

Regional development

Regional development is one of our government's major concerns. That is why tonight's Budget focuses on Québec's regions.

Regional development fund

Municipal roads

Moreover, several of the measures introduced will greatly benefit individuals and firms in the regions. This is true of the major investments in health and road safety that I have just announced. However, to come directly to the aid of the regions, $10 000 000 in additional appropriations will be allocated to the regional development fund. It is also urgent to improve municipal roads; additional funds of $5 000 000 will be granted to the ministère des Transports for this purpose.

An additional $1 000 000 will be set aside for the ministère du Loisir, de la Chasse et de la Pêche to increase the provisional fund designed to assist those agencies and regions which would not otherwise have access to government assistance, while other funds will be earmarked for tourist promotion.

The Caisse de dépôt et placement du Québec will step up its involvement in regional industrial and commercial development, emphasizing its role in economic development while ensuring profitability and protecting funds entrusted to it. In particular, it will promote the expansion of Québec firms. This policy should permit the implementation of profitable projets that might not otherwise have been realized.

Assistance in the capitalization of businesses

Another group of incentives for economic development I would like to present tonight deals with the capitalization of businesses and is part of our plans for this field. Last fall, changes to the Québec Stock Savings Plan were made to place greater emphasis on the financing of developing businesses, and to make regional venture capital companies eligible for participation in it.

This evening, I wish to announce several other improvements being made in our program to assist the capitalization of companies.

QSSP investment funds

Now is the time to launch QSSP investment funds, which will act as mutual funds specializing in stocks eligible for inclusion in the QSSP. Investors will thus be able to diversify their portfolio and reduce the risk they assume, while benefiting from the plan's advantages. I am convinced that this measure will spark investor interest in stocks eligible for inclusion under the QSSP, which can only help the Québec economy. Such funds may be set up as of January 1, 1988.

Advance ruling compulsory

To assure taxpayers that the capital invested under the QSSP complies with the program, any QSSP share issue for which a prospectus is filed or which is covered by a private investment through a QSSP investment fund must obtain a favourable advance ruling from the ministère du Revenu. The department will rule unfavourably when the QSSP share issue does not comply with the program's objective.

QBIC

Changes concerning Québec Business Investment Companies (QBICs) have also been made. They are designed to facilitate investment in fledgling firms, and prevent abuses by certain shareholders.

FTQ

Finally, the rules governing the Fonds de solidarité des travailleurs du Québec (FTQ) will be changed. These changes are meant to ensure that the tax credit will continue to be used for permanent capital formation, and to allow the Fonds to redeem its shares by agreement, under certain conditions.

Increasing social justice and improving the taxation system

The initiatives I have just announced, coupled with all of the efforts of government departments working towards economic goals, should contribute significantly to increased employment and economic growth in Québec. Our policies have already begun to bear fruit, making possible considerable progress in social justice. This evening's Budget includes a variety of measures aimed at increasing social justice, principally by improving the taxation system.

As soon as we came to power, I took steps to make Québec's taxation system more competitive. Tax reductions originally planned for 1987 were applied ahead of time in the 1986 taxation year. The discrepancy between the upper marginal rates in Ontario and Québec was thus reduced from 10.1 percent to 4.1 percent.

Since the United States has extensively reformed its system of taxing individuals and business firms, it has become clear that Québec must do the same if its taxation system is to remain competitive. The same is true for the federal system, as the Canadian Minister of Finance has recognized. I should be in a position to make Québec's taxation reform policy known in the fall.

However, a number of problems related to the Québec taxation system require immediate attention. It will first be necessary to lighten the tax burden for heads of low-income families, and at the same time improve the lot of families with several children. I will then go on to mention measures designed to assist particular groups. Finally, we will have to improve Québec's taxation system in order to simplify it, eliminate the most flagrant shortcomings, and bring it into line with certain measures announced last February by the federal government.

Families

Families play a vital role in society. Because of the additional costs engendered by children, families need support, either through the tax system or by means of direct government assistance.

Québec's tax system adequately recognizes the cost of basic expenditures for taxpaying families. Exemptions for dependent children are considerably higher than in other provinces, and social aid is designed to adequately provide for basic expenses related to the presence of children.

However, these two systems provide little benefit for families which earn sufficient income to come off social aid but not enough to appreciably increase their disposable income. This situation provides little incentive for heads of low-income families to remain on the labour market. These low-wage families need extra support from the government.

Families earning the average industrial wage already pay relatively high income taxes, and this situation is even more burdensome for large families. Therefore, their tax burden should be lightened.

Low and middle-income families

Adjustment to the taxation system

The taxation system applicable to low-income families must be modified. A number of these families must pay income tax even though they receive financial assistance from the government. It is hard to understand, for example, that a two-parent family with two dependent children and earning $15 000 a year must pay income tax. The State itself seems baffled by the situation as it is paying allowances to such a family to encourage it to enter or remain on the labour market and, implicitly, help it pay the resulting income tax.

This evening, I am announcing the elimination of income tax for low-income families. To this end, I am introducing a tax reduction of up to $930 for two-parent families, and $765 for single-parent families not sharing living quarters with another adult. The deduction will come into effect next January 1.

This income tax reduction will have considerable impact. For example, a two-parent family with two children now pays Québec income tax on income in excess of $13 004. In the future, the same family will pay tax only on income of $20 822 or more. When such a family is entitled to the child care expense deduction, its zero tax threshold will rise from $15 541 to $25 871. I feel the least we can do for families earning less than these amounts is to exempt them from paying income tax. Some 45 000 additional families will no longer pay Québec income tax.

This measure will eliminate the tax liability of a great many taxpayers and reduce the income tax for 300 000 middle-income families whose income could reach $34 500. For example, a two-parent family with two children earning $25 000 will save $773 in tax, and one earning $30 000, $315.

The total cost of the tax reduction being introduced this evening for low and middle-income families will be $169 000 000 for one full year.

The APPORT program

Parents earning low incomes will no longer pay tax under the new system and will also receive additional assistance from the government. Under the current system, low-income families receive too little from work income. For example, for a two-parent family with two children, total disposable income would rise only $34 per month were one spouse to work for a monthly wage of $1 000. You will agree that this is too little.

A program already exists which can provide assistance in entering the labour market, that is, the work income supplement program (SUPRET). We could have simply modified the program to have it reflect the tax reductions announced this evening. However, the SUPRET program also has a number of major deficiencies: recipients must sometimes wait up to two years after entering the labour market for the benefits to which they are entitled under the program, and it takes no account of the child care expenses incurred by working parents.

Replacement of the SUPRET program

Under the circumstances, it struck me as necessary to gradually eliminate the SUPRET program for childless households in favour of a new assistance program for low-income families with children (APPORT) which will become effective in 1988. Under the new program, benefits will be paid to most parents on the labour market whose earnings fall below the zero tax threshold. It offers three improvements over the existing program.

First, benefits which encourage taxpayers to work will be paid every month. Québec-Travail centres will be responsible for administering the program, thereby facilitating prompt settlement of claims.

Child care expenses

Second, the APPORT program will facilitate entry to the labour market for parents incurring child care expenses. Benefits will be calculated on the basis of net employment income, that is, earned income less child care expenses paid by the parents. The assistance granted by this program will compensate parents for about 50 percent of child care expenses, regardless of the type of child care selected.

Finally, the APPORT program will enable low-income families to keep a larger proportion of work income. Let us look again at the two-parent family with two children, whose disposable income increased by only $34 a month when it abandoned social aid in favour of entering the labour market at a monthly wage of $1 000. Under the APPORT program, it would receive $324 a month more from work income than from social aid.

Benefits under the APPORT program will be even more substantial for low-income families incurring child care expenses, especially single-parent families. For example, a single-parent family with one young child and earning $9 000 a year would receive $4 335; $1 811 of this assistance would be related to child care expenses. The appendix on Fiscal and Budgetary Measures gives details about how this program will operate.

The program, which comes into effect on January 1, 1988, will be administered by the ministère de la Main-d'oeuvre et de la Sécurité du revenu and benefit 44 000 families, which will receive a total of $65 000 000 over a full year.

Assistance for day care centres

I believe we must continue to develop child care services to better satisfy demand. Thus, I am announcing a supplementary budget of $4 200 000 for the Minister responsible for the Status of Women, which will enable the Office des services de garde à l'enfance to add 1 000 new places with families, 500 in profit-making day care centres and 1 100 in non-profit day care centres. The additional funds will also make it possible to raise the ceiling on assistance to non-profit day care centres for the cost of premises from $8 000 to $9 000.

Additional funds of $3 800 000 will be entered under the contingency fund of the ministère des Finances for new day care centre projects.

Finally, changes will be made with regard to the child care expense deduction, to make sure that parents of children who reach age six after September 30 of a given year continue benefiting from the maximum deduction.

Large families

This Budget also comes to the aid of large families. It will be remembered that in April 1985, the government introduced new exemptions for dependent children. At the same time, it announced that family allowances would be recovered when taxpayers filed their income tax returns, in the belief that the new exemptions for dependent children were sufficient.

Family allowances — third child

Such a system, in which sums are paid out only to be reclaimed, is surprising, to say the least. I intend to re-examine the question of family allowances in the tax reform I announced earlier. However, it seems reasonable to let large families keep the family allowances they receive, which is why, last November, our government abolished the recapture of all family allowances paid for the fourth and subsequent children in Québec. This evening, I am abolishing the recapture of allowance for the third child as of the present taxation year which means annual benefits of $22 000 000 for families.

Availability allowance

In my last Budget Speech, I stressed the importance of reviewing the relevance of the availability allowance in light of new exemptions for dependent children and the recent increase in deductions for child care expenses incurred with respect to children under six. In my view, the availability allowance must be modified to better assist large families and contribute financially to the measures I have just announced. This will be done starting in the 1987 taxation year. The present scale of $300 for the first child under six, $200 for the second and $100 for each additional child will be reversed, that is, $100 for the first child under six, $200 for the second and $500 for each subsequent child. This new scale will make it possible to provide an additional allowance to families with three young children or more. Moreover, families earning less than $30 000 will generally be more than compensated by other measures I have announced this evening.

Overall, these new measures will raise the disposable income of families by $188 000 000 and will especially benefit low and middle-income families and large families. This financial assistance is added to various other measures designed to provide economic support to families with children. When account is taken of personal exemptions for dependent children, child care expense deductions, supplementary social aid benefits for children and other measures related to children, government support for families with children, including the measures announced this evening, will total more than $1 260 000 000 in 1988. Government initiatives concerning such families are considerable. Moreover, in 1988 these initiatives will represent an increase of over half a billion dollars since this government came to power.

In addition to providing families with substantial assistance, the new assistance program adequately bridges social aid and the labour market. The government will no longer penalize families wishing to break out of the vicious circle of poverty and dependence.

Assistance for particular groups

Contingency fund

Health and social services

Certain groups of Quebecers experience particularly trying situations. These people must be helped. Additional appropriations of $36 700 000 will be allocated this year to improve the situation of these various groups. Of this amount, $19 700 000 will be allotted to the ministère de la Santé et des Services sociaux. When added to the supplementary budget accorded the residents of the Outaouais, these funds bring this department's additional apropriations to $24 700 000. The appendix on Fiscal and

Budgetary Measures provides further details on the allocation of these additional amounts and the measures that will be implemented.

Student entrepreneurs

The unemployment rate among young people was down markedly in 1986; nevertheless, it remained at 16.9 percent. The quality of life of young Quebecers is of pressing concern to the government. To improve the situation of our young people, we will promote student jobs and the development of sports and recreational activities. Moreover, a loan program for student entrepreneurs will be created. Additional funds will also be allotted for youth centres.

The elderly

A number of elderly persons will one day have to make use of the housing services provided by the social affairs network and it is our duty to ensure that they receive adequate treatment. To improve the accommodation of the elderly persons in extended care hospitals and reception centres, the Minister of Health and Social Services will soon announce how the additional funds will be distributed among the various establishments.

The handicapped

Battered women

Our society also includes other groups to whom we cannot remain indifferent. Additional funds will be allotted the Office des personnes handicapées to enable it to more fully and adequately meet the needs of those handicapped persons requiring very specialized services. Increased aid will also be provided for community and independent agencies offering services to women in distress and battered women. Their admirable work in this area is accomplished with financial means that are all too meager. Other funds will be made available during the year for priority projects in the health and social services sector.

The homeless

Finally, to concretely highlight the International Year of Shelter for the Homeless, additional funds will be allocated to developing the infrastructure of reception services for the homeless. A plan of action will be implemented to fund various research, public awareness and intervention projects aimed directly at these persons. Funds will also be made available for the various programs designed to prevent drug abuse and to integrate and rehabilitate people suffering from slight mental impairment. It is to be hoped that these measures will help meet the needs of several categories of underprivileged citizens, thereby helping us build a more just society.

The tax on automobile insurance

On the other hand, after the election our government lost no time in eliminating the 9 percent sales tax on personal life insurance and personal sickness and accident insurance premiums. This was only a first step, but the precarious condition of the financial framework did not allow us to go any further at the time.

Sound financial management now makes it possible for us to take further action. I am announcing that the 9 percent sales tax on automobile insurance premiums will be reduced to 5 percent, applicable to premiums paid after midnight tonight. This reduction will amount to more than $50 000 000 per year.

Rationalization and simplification of the taxation system

All Quebecers must pay their fair share to finance government services. Moreover, it is important for taxpayers to pay their taxes. To this end, the taxation system must be equitable and avoid encouraging anti-economic behaviour. Taxpayers must also understand the system.

The Minister of Revenue has asked his Parliamentary Assistant, the MNA from Montmorency, to make recommendations concerning simplification of the taxation system, which were recently made public. The coming tax reform will provide the opportunity of following up on certain of these recommendations. However, some corrective measures will be taken immediately.

One of the first steps is to simplify income tax forms. As we saw this spring, this will not be an easy task. The Minister of Revenue has already announced work undertaken to simplify the forms and make life easier for taxpayers. This work will continue during the year.

The elderly

People aged 65 or over who continue to work deserve fairer treatment. At present, their work income reduces their age and retirement income deductions, and lowers interest and dividend income deductions. In addition to taxing often minimal work income, the reduction formula used is extremely complex.

First $10 000 of income tax exempt

To improve the financial situation of the semi-retired and simplify their tax calculations, I am announcing this evening two measures that will apply starting in the 1987 taxation year. First, only that portion of work or business income in excess of $10 000 will reduce age, retirement, interest and dividend income deductions. Second, the Minister of Revenue has assured me that a single calculation will henceforth apply to the reduction, instead of the three now employed.

Employer pension plan contributions

Moreover, to bring this measure into line with the federal taxation system, employers will no longer have to pay Québec Pension Plan contributions for employees 60 and over already receiving a pension from that agency. As is the case for the Canada Pension Plan, this measure will apply starting January 1, 1987.

Alcohol tax

The price of wine and spirits in Québec has increased substantially since 1980, considerably more than the consumer price index. Cumulatively, these increases have made alcoholic beverages more expensive in Québec than in certain neighbouring provinces and states. With this in mind, the Société des alcools has revised its policy with regard to increases, in order to reduce the impact of producers' price increases on retail prices. Doing so will not mean a reduction in expected dividend since the loss in revenue will be partly offset by a number of control measures, whose objective will be to counter tax evasion and fraud.

The alcohol tax applies to two distinct types of sales, that is, sales of alcoholic beverages for consumption in the home, and sales in establishments as defined in the Meals and Hotels Act. Consumers purchasing alcoholic beverages for personal consumption pay the 9 percent sales tax, while restaurant owners buying the same products for sale in their establishments must pay a 13.4 percent retailers' duty. This is a good example of non-neutrality in tax rates. To solve this problem, I am announcing that as of midnight tonight, the retailers' duty will be reduced from 13.4 percent to 9 percent except for taverns, which will continue to benefit from the exemption from the 10 percent restaurant and hotel tax applicable to beer consumed on the premises, and for which it appears reasonable to maintain the retailers' duty at its current level considering their already privileged situation.

Taxation of pari-mutuel

For several years, the horse racing industry in Québec has been experiencing serious structural problems. Since 1980, attendance at racetracks has dropped 40 percent, causing a proportionate decrease in government revenues. The problem is particularly worrisome in the Montréal region. An industry employing 10 000 people is in peril. In view of this situation, described in detail by the Mireault task force, in which the member for Mille-Isles actively participated, the government has decided to act.

As quickly as possible, a body will be set up bringing together all those involved in this sector.

The portion of the duty on pari-mutuel returned to the industry, currently $7 100 000, will be raised to $13 100 000. Subsequently, the amount will be indexed to the inflation rate and paid every year to the new body until 1992-1993. This agency will administer these funds under a program to assist racetrack infrastructure and investment, provide support for breeders and local horse owners and raise the purses distributed at regular horse races.

One reason for the decline in the industry is the sharp increase in the tax rate on pari-mutuels and race track commissions. To rectify the situation, a new tax structure applicable to pari-mutuel will come into effect as of midnight tonight. It will provide race tracks with greater flexibility in programming. Moreover, the tax rate will be lowered according to the reduction in the race track commission rate, to a maximum of 2 percentage points.

These measures will enable the industry to upgrade equipment, improve its product and attract customers while maintaining the 10 000 jobs currently threatened. As a result, they should, in the medium term, generate revenues for the government equivalent to those collected in the early 1980s.

Local taxation

The government is also aware of the important place the municipalities occupy in the realm of public finances. Reports prepared by two associations of municipalities and the Commission d'étude sur la Ville de Québec, all made public last fall, enabled us to discern problems the municipalities are facing, and propose solutions to them. The government is currently studying the recommendations put forward in these reports and various problems related to local taxation.

Such problems are numerous and complex and often entail altering the distribution of the tax burden among various categories of taxpayers. In light of the uncertainty surrounding federal tax reform and its repercussions on the Québec taxation system, the government must proceed cautiously in this area. We intend to intervene only after all these elements have been analysed and impact studies made available.

RCMs

With regard to the regional county municipalities (RCMs), the government realizes that the time has come to clarify their status and clear up ambiguities. The Minister of Municipal Affairs has therefore undertaken a global re-examination of their powers, responsibilities and financing methods, and intends to submit shortly, to the municipalities, a number of proposals for confirming the status of the RCMs, assuring them that they will be given no new responsibilities without equivalent additional resources.

Environmental measures

Another area of particular concern to our government is the quality of our environment. We are allocating considerable amounts to reducing pollution. Certain polluting agents are easy to identify and it is only normal that those using them contribute to the financing of purification programs.

Regular leaded gas

One means of assuaging environmental quality concerns is to promote the use of unleaded gas. To do this, we will reduce the number of fuel tax rates; this measure is also designed to simplify administration of the taxation system. From now on, regular leaded gas, regular unleaded gas and premium gas will be taxed at the same rate. All gas delivered to retailers after midnight tonight will be taxed at the rate which currently applies to regular unleaded gas. This standardization also covers reductions granted to border areas and designated regions. Only the rate on the type of gas which pollutes most heavily will be increased. In this way, we can finance substantial increases in budgets allocated to the environment.

Maple trees

Tobacco farmers

Pollution is seriously, effecting certain groups in our society. In order to speed up research on means of countering maple die-back caused by acid rain and to find non-polluting pesticides that could be used in agriculture, I am announcing a grant of $1 000 000 to the contingency fund of the ministère des Finances for this purpose. There will be equivalent appropriations to help farmers in the tobacco sector turn toward other types of production.

The arts

The government is very concerned about the taxation system as it applies to artists. Discussions are continuing with artists' representatives in Ottawa and in Québec. These questions will be examined in detail as part of the impending tax reform. However, I am prepared to ensure that a number of measures are applied immediately.

First, to increase the amounts collected through public fund-raising campaigns organized by cultural agencies, gifts given to such agencies recognized for this purpose by the Minister of Cultural Affairs and the Minister of Revenue will henceforth be deductible when the donor calculates his taxable income.

Professional dues

Moreover, because some artists must, for practical reasons, be members of professional associations, and to encourage the participation of artists in such associations, changes will be made in tax legislation. The annual dues paid to the associations mentioned in the appendix on Fiscal and Budgetary Measures may be deducted when calculating income earned from an office or employment. I intend to ask the federal Finance Minister to bring federal legislation into line with Québec legislation.

Additional support will be provided for agencies working in fields for which the ministère des Affaires culturelles is responsible. Such agencies will be encouraged to obtain funds to develop the arts; the department will encourage their efforts and grant them, from an additional $2 000 000 in funds, a subsidy of up to that amount.

Other measures

The appendix on Fiscal and Budgetary Measures contains various measures designed to rationalize and simplify the taxation system. I would like to mention the most important ones.

Video cassettes, car seats for children and books on tape

First, I am announcing the abolition of the $2 tax on blank video cassettes which was added to the general sales tax. I am also announcing the abolition of the retail sales tax on car seats for children, and on books on tape for the blind, bringing their sale into line with other books. These three measures will take effect as of midnight tonight.

Concordance with the federal budget

Another way the Québec government can simplify the taxation system is to bring it into line as much as possible with the federal system. Last February 18, the federal Minister of Finance tabled a Notice of Ways and Means Motion in the House of Commons. The appendix on Fiscal and Budgetary Measures contains various concordance measures we plan to adopt.

Remittance by employers of at-source deductions

I would like to emphasize that the most important of these measures in terms of financial impact concerns at-source deductions remitted by employers. From now on, such payments must be made twice a month, rather than on the 15th of the subsequent month. Employer remittances of income tax, QPP contributions and the health services fund contribution pertaining to wages paid during the first 15 days of the month will be due on the 25th of the same month, while the balance will be due on the 10th of the following month. As is the case in Ottawa, the new system will apply starting January 1, 1988 and covers employers contemplated by the federal measure. These employers will not have to follow two different procedures.

Financial framework

I would now like to examine the overall impact on the financial framework of the various measures I have just announced. First of all, let us look at the current fiscal year.

The 1987-1988 fiscal year

STATEMENT OF FINANCIAL TRANSACTIONS, 1987-1988
(In millions of dollars)

1. Budgetary transactions		
Revenue	+ 27 680	
Expenditure	– 30 080	
Déficit		– 2 400
2. Non-budgetary transactions		
Investments, loans and advances	– 285	
Retirement plans account	+ 1 453	
Provision for the water-purification program	+ 12	
Other accounts	– 230	
Surplus		+ 950
3. Net financial requirements		– 1 450
4. Financing		
Change in cash position	+ 100	
Change in long-term debt	+ 1 350	
Total		+ 1 450

Budgetary revenue

Anticipated budgetary revenue is $27 680 000 000, an 8.2 percent increase over the past year. Prospects have improved markedly since last year, when the three-year forecast was $26 945 00 000. This is attributable to several factors, of which I will mention the most important.

First, the increase in the nominal GDP will reach 7.7 percent in 1987 instead of the 6.1 percent forecast in the last Budget Speech. This upturn will generate higher own-source revenue.

Since January 8, 1987, a 15 percent federal surtax has been imposed on Canadian lumber exported to the U.S., to replace the 15 percent compensatory duty imposed by the U.S. since October 1986. The federal government is distributing this tax to the provinces proportionally to the actual place of origin of the wood shipped to the U.S. This measure will generate $104 000 000.

Interest on the accounts receivable of the ministère du Revenu will also be updated in the present fiscal year, which will generate additional revenues of $150 000 000, although the provision for bad debts must be increased by $50 000 000.

As a result of delaying a number of privatizations originally planned for 1986-1987, revenue of $215 000 000 is anticipated in this respect this year. Account must be taken of the fact that surpluses recorded by the Commission des normes du travail were only recaptured at the beginning of the present fiscal year.

After decreasing constantly since 1984-1985, federal transfers should begin to increase again this year, largely because of the payment of non-recurrent equalization payments. As a result, the problems I raised during talks on the new 1987-1992 Fiscal Arrangements concerning slow growth in this portion of budgetary revenue still persist.

Budgetary expenditure

Let us now turn to expenditures resulting from the budgetary measures I have just announced, and revisions to government expenditure forecasts made since I tabled the estimates in the National Assembly.

Anticipated expenditure for 1987-1988 at the time the estimates were tabled totalled $30 150 000 000, including anticipated net lapsed appropriations of $175 000 000. The new expenditures just announced will add $180 000 000 to the overall figure, to which must be added a $50 000 000 increase in the provision for bad debts, as a result of the updating of interest on the ministère du Revenu accounts receivable mentioned earlier.

Revised economic forecasts since the tabling of the estimates, including changes in interest rates, have led me to reduce by $130 000 000 probable expenditures for the government's debt service and interest subsidies it pays to various components of the public sector. A $31 000 000 subsidy to Sidbec to be paid in 1987-1988 was paid at the end of the last fiscal year. Some $7 000 000 in reductions in expenditure arises from changes made in accounting policies with respect to retirement plans. The government intends to pursue its rigorous management of expenditure; to this end, it has raised from $175 000 000 to $302 000 000 its objective concerning lapsed net appropriations for the current fiscal year.

Therefore, anticipated expenditure for 1987-1988 is $30 080 000 000, $70 000 000 less than when the estimates were tabled last March. Growth in expenditure will be reduced to 5.6 percent, from 5.9 percent the previous year.

Anticipated expenditure for 1987-1988 is $430 000 000 higher than forecast in last May's Budget Speech. When revenue and expenditure forecasts for this fiscal year were made during preparation of last year's Budget, inflation was expected to reach 2.9 percent in 1987. Oil prices had just plummeted spectacularly; a ripple effect spread gradually through Western economies, appreciably reducing inflation. However, inflation did not fall as much as expected in 1986; in recent months, it has risen again slightly and should reach 3.8 percent in 1987.

Such an increase has obviously affected anticipated expenditure, especially because of the automatic indexation of various expenditures, such as social aid benefits. The expected upswing in inflation has also affected wage increases granted to public sector employees on January 1 and on wages such employees will receive as of January 1, 1988. The change in wage increases alone has increased government spending by $184 000 000. Improvements in other government wage offers made during negotiations will increase expenditure by $175 000 000 for the present fiscal year. All told, settlement of collective agreements in 1987-1988 will cost $359 000 000 more than expected.

The government has reached negotiated settlements with its employees. This evening, I would like to congratulate the chairman of the Conseil du trésor, and his collaborators, who have fulfilled their duties competently. I would also like to mention that discussions the government had with employer partners and the representatives of public sector unions were frank and calm. I am delighted that the public discussion accompanying negotiations was marked by mutual respect and a highly civilized atmosphere. Wage increases in 1986 averaged 3.5 percent; they will average 4.2 percent in 1987 and 4.8 percent in 1988, which seems very reasonable.

Budgetary deficit and net financial requirements

The anticipated budgetary deficit for the 1987-1988 fiscal year is $2 400 000 000, nearly $500 000 000 less than in the last fiscal year.

The surplus of non-budgetary transactions is expected to reach $950 000 000, similar to that last year, and the reduction of the budget deficit will result in a substantial decrease in net financial requirements, now expected to total $1 450 000 000.

Borrowings

As regards financing, repayment of borrowings to be made in 1987-1988 total $1 300 000 000 and borrowings total $2 627 000 000. Pursuing the debt restructuring program undertaken last year might lead the government to refinance various borrowings which do not fall due this year, thus causing an equivalent increase in repayments and new borrowings during the year. On the other hand, the government's cash position will drop by $100 000 000 during the year.

Three-year forecasts

Deficit below $2 000 000 000

Net financial requirements below $1 000 000 000

Despite our performance last year and that anticipated for this year, we must pursue measures aimed at rationalizing expenditure. I have already indicated that our goal is to reduce the deficit to less than $2 000 000 000 in 1989-1990. As a result, it will be possible to bring net financial requirements under the $1 000 000 000 line, which has not occurred since 1975-1976. This will break the endless deficit-interest payments-deficit spiral, and prevent the debt from outflanking our ability to repay it.

Given the revenue anticipated and the measures announced tonight, it seems reasonable to plan growth in revenue approaching the rate of inflation for the coming two fiscal years, by incorporating additional rationalizations corresponding to 1 percent of overall annual expenditure.

As will be the case this year, increase in expenditures will exceed the inflation rate only slightly. Thus, we will continue to reduce the ratio of government expenditure to gross domestic output from 25.4 percent in 1986-1987 to nearly 24.0 percent in 1989-1990. The appendix entitled "Medium-term Outlook on the Québec Government's Financial Position" examines this forecast in detail and explains how achieving such results will help remedy the financial position and put some order into public finances.

Great vigilance will be needed to deal with the pressure on government spending, especially the debt service and health and post-secondary education programs. The deficit reduction policy will make it possible to keep growth in the debt service at a more reasonable level.

Our government has promised to better respond to needs in the fields of health and post-secondary education. The 1986 and 1987 Budgets attest eloquently to this fact. The work of the Minister of Health and Social Services, the Minister of Higher Education and Science and the Rochon Commission will make it possible to more accurately forecast optimal changes in expenditure in these sectors in the coming years, although the analysis has revealed that, even using a mechanical projection, growth in these expenditures will outstrip that of the gross domestic product.

Such growth far exceeds growth in revenues allocated to financing both sectors and, especially, higher than that in federal transfers applicable to health and post-secondary education. I would like Quebecers to fully understand the imbalance between revenue and expenditure in the fields of health and post-secondary education. For this reason, Appendix F examines expenditure and financing in both sectors.

Conclusion

Last year, our principal objective in the Budget was to put our house in order. We had to deal with a considerable budgetary gap and eliminate a number of substantial debts. To rekindle confidence among Quebecers, we had to put Québec's public finances on the road to recovery without jeopardizing the economic revival.

This is precisely what we did, as the encouraging results I have just announced clearly show. We have scrupulously adhered to our budget plan. We have harmoniously renewed public and parapublic sector collective agreements. In recent months, our economy has picked up in several respects and, because of the favourable economic situation, we are in a position to reduce our budget deficit by nearly half a billion dollars, while reducing the tax burden by $219 000 000 over a full taxation year. Within three years, we even hope to lower the deficit to under $2 000 000 000 and net financial requirements to less than $1 000 000 000. These achievements are highly significant in terms of their scope and the short period of time we took to accomplish them. It is striking that we have achieved them despite shortfalls in federal transfers.

Starting this year, the government has decided to launch an important phase in its plan of action covering job creation, economic growth and social justice. The measures I have announced to foster research and development should help bring together university researchers, entrepreneurs and investors. Over time, this initiative should solidly bolster the Québec economy and enhance promising future prospects, especially for young people.

Measures covering low and middle-income families reflect a major shift in our taxation system and income-support programs, centred on social justice, fairness and incentives to work. They are only the beginning, as other measures will follow when reforms of the taxation system and social aid are implemented.

We are facing tremendous challenges, and I am firmly convinced that we will be able to meet them.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
1987-1988 FORECAST
(in millions of dollars)

1. Income and property taxes	
Personal income tax	8 995.0
Employer contributions to health services fund	1 947.0
Corporate taxes[1]	1 222.0
	12 164.0
2. Comsumptions taxes	
Retail sales	3 812.0
Fuel	1 187.0
Tobacco	567.0
Meals and hotel	386.0
Other[2]	137.0
	6 089.0
3. Duties and permits	
Motor vehicules	343.0
Alcoholic beverages	63.0
Natural resources[3]	97.0
Pari-mutuel	26.0
Other	97.0
	626.0
4. Miscellaneous revenue	
Sales of goods and services	217.0
Interest	383.0
Fines, confiscations and recoveries	435.0
	1 035.0
5. Revenue from government corporations[4]	
Société des alcools du Québec	375.0
Loto-Québec	374.0
Hydro-Québec	337.0
Other	254.0
	1 340.0
Total own-source revenue	**21 254.0**
6. Government of Canada transfers	
Equalization	3 026.0
Other transfers pertaining to fiscal arrangements	1 726.0
Contributions to welfare programs	1 156.0
Other programs	518.0
Total Government of Canada transfers	**6 426.0**
Total budgetary revenue	**27 680.0**

[1] Includes taxes on corporate profits, capital and insurance premiums.

[2] Includes tax on telecommunications and on electronic advertising.

[3] Includes forest, mining and water resources.

[4] Includes dividends declared and changes in surpluses or deficits accumulated by government corporations which are consolidated, concomitant with a reevaluation of the government's investment therein.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE
1987-1988 FORECAST
(In millions of dollars)

Budgetary expenditure by department or agency	
Affaires culturelles	203.5
Affaires municipales	766.7
Agriculture, Pêcheries et Alimentation	551.2
Approvisionnements et Services	55.2
Assemblée nationale	56.2
Commerce extérieur et Développement technologique	53.8
Communautés culturelles et Immigration	30.0
Communications	198.8
Conseil exécutif	34.2
Conseil du trésor	18.8
Éducation	4 941.9
Énergie et Ressources	396.5
Enseignement supérieur et Science	2 609.4
Environnement	308.2
Finances	3 153.6
Industrie et Commerce	300.3
Justice	353.9
Loisir, Chasse et Pêche	198.7
Main-d'oeuvre et Sécurité du revenu	3 039.8
Office de planification et de développement du Québec	45.6
Organisme relevant du ministre délégué à l'Administration	1 039.7
Organismes relevant de la ministre déléguée à la Condition féminine	85.6
Organismes relevant de la Vice-présidente du Conseil exécutif	198.1
Personnes désignées par l'Assemblée nationale	25.1
Régie de l'assurance-maladie du Québec	1 841.2
Relations internationales	66.3
Revenu	287.0
Santé et Services sociaux	7 048.4
Solliciteur général	563.4
Tourisme	70.4
Transports	1 652.2
Travail	56.3
Provision for bad debts	75.0
Total	**30 325.0**
Plus: ☐ **additional measures announced in the Budget**	**180.0**
☐ **additional amount to be charged to the provision for bad debts**	**50.0**
Less: ☐ **anticipated lapsed appropriations at the time appropriations are tabled**	**175.0**
☐ **revision of economic parameters**	**130.0**
☐ **effect of changes on treatment of retirement plans**	**7.0**
☐ **anticipation in 1986-1987 of payment of a subsidy to Sidbec**	**31.0**
☐ **earlier submission of employer remittances**	**5.0**
☐ **additional lapsed appropriations**	**127.0**
Total probable expenditure	**30 080.0**

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
1987-1988 FORECAST
(in millions of dollars)

1. Investments, loans and advances		
Enterprises of the gouvernement du Québec		
Share capital and invested capital:		
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 20.0	
Société générale de financement du Québec (SGF)	—	
Société nationale de l'amiante (SNA)	—	
Société québécoise d'exploration minière (SOQUEM)	—	
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	—	
Société québécoise d'initiatives pétrolières (SOQUIP)	—	
Other	– 3.3	
		– 23.3
Change in equity value of investments		– 207.0
Loans and advances:		
Société immobilière du Québec (SIQ)	+ 75.0	
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 40.0	
Société de développement industriel du Québec	– 33.2	
Other	– 33.4	
		– 31.6
Total enterprises of the gouvernement du Québec		– 261.9
Individuals, corporations and other		– 23.1
Total investments, loans and advances		– 285.0
2. Retirement plans account		
Employer and employee contributions	+ 2 019.0	
Benefits and other payments	– 566.0	
Total retirement plans account		+ 1 453.0
3. Provision for financing the water-purification program		+ 12.0
4. Other accounts		– 230.0
Non-budgetary transaction surplus		**+ 950.0**

N.B.: A (–) sign indicates a financial requirement and a (+) sign, a source of financing.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
FINANCING
1987-1988 FORECAST
(in millions of dollars)

1. Change in cash position		+ 100.0
2. Change in long-term debt		
New borrowings	+ 2 627.0	
Change in debt resulting from amortization of foreign exchange	+ 23.0	
Repayments of borrowings	− 1 300.0	
Total change in long-term debt		+ 1 350.0
Total financing		**+ 1 450.0**

N.B.: A (−) sign indicates a financial requirement and a (+) sign, a source of financing.

APPENDIX A

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1. MEASURES TO PROMOTE JOB CREATION AND ECONOMIC DEVELOPMENT

Improvements to university funding and taxation of research and development

Québec's success in dealing with the challenge of technological change depends on more substantial and higher quality investment in human resources. In addition, we must develop the conditions needed to allow the economy's potential for innovation to flourish, especially by stimulating research and development in Québec. Measures are therefore being introduced to promote higher education and university research, the use of human resources in the private sector, and synergy between the private sector and universities, and to facilitate the raising of risk capital. Measures involving the non-taxation of tax credits and more favourable tax treatment of research grants are also being introduced. Some measures are strictly fiscal in nature, while others are designed to improve the financial situation of universities active in research. They form an inseparable package centred on job creation and economic development.

Higher education and university research

Financing higher education

Education is unquestionably a factor in economic development. The future prosperity of Québec's economy depends, in part, on the quality of our educational system, particularly the capacities of its university network with respect to research, innovation and creativity. The Minister of Higher Education and Science is developing a new financing formula for Québec's universities. Until this new formula is ready to be implemented, the government will be providing immediate assistance.

A renewable amount of $15 000 000 is provided to adjust the financing base of the universities. A further lump sum of $15 000 000, spread over two years, will be made available to universities to assist them to reduce their accumulated deficits. This additional support, together with the adjustment to the university's financing base, will be provided once the university wishing to take advantage of this assistance draws up a plan to gradually eliminate its deficit.

Assistance for university research

To strengthen the capacity of Québec's universities to conduct research, additional financial resources will be granted to those universities active in research. The Minister of Higher Education and Science will advise the universities of the specific terms governing the allocation of such additional financial resources.

The government will earmark a further $20 000 000 over four years to enable universities to acquire or modernize their scientific equipment. This more extensive financing will enable Québec's universities to purchase equipment needed to undertake joint projects with private enterprise.

In addition, the government is providing $14 000 000 over two years to fund indirect research costs, which are at present fully absorbed by university operating budgets.

Finally, faster acquisition of books, periodicals and other reference materials needed to support research projects will be possible for universities. To this end, the government will make $5 000 000 in funding available to the universities for each of the next two years.

Utilization of human resources in the private sector

Refundable tax credit raised

Currently, taxpayers carrying on a business in Canada are entitled to a refundable tax credit of 10 percent of wages paid in Québec for the costs of research and development they carry out in Québec.

To increase the effectiveness of this refundable tax credit and to promote more extensive research in Québec, the rate of the credit will be raised to 20 percent for wages paid in Québec after the day of the Budget Speech. In addition, from now on, this tax credit will be available to corporations only. New measures and transitional rules will, nevertheless, be introduced for individuals. These measures are described in the section on risk capital.

Tax holiday for foreign researchers

Companies which conduct research or wish to develop new research activities sometimes find it necessary to recruit specialized personnel from outside Canada.

To assist companies to recruit specialized foreign researchers, a holiday from personal income tax will be allowed such researchers for a maximum of 24 months of research activity with a company conducting research in Québec.

The income eligible for this tax holiday will be the salary portion of current research and development expenditures incurred by an individual operating a business in Québec, provided the salary paid may reasonably be considered to be related to the period of research activity. This tax holiday will be granted as a deduction from taxable income of an amount equal to the eligible income. This deduction will not be limited by the alternative minimum tax. The employer will have to certify the amount of the employee's salary which is eligible income. The term "salary" will have the same meaning as currently stipulated for the purposes of the refundable tax credit.

A foreign researcher will be entitled to this tax holiday for only one period of not more than 24 months and, to be eligible, must satisfy the following conditions:

- reside outside Canada on the day of the Budget Speech and immediately before signing his employment contract or assuming his duties as an employee of the company conducting research and development; and
- be a specialist in the field of pure or applied science or a related field and hold at least a Master's degree recognized by a Québec university, or its equivalent.

In addition, to ensure that the researcher can take advantage of the tax holiday, before signing the employment contract and prior to the researcher assuming his duties, the employer will have to obtain a certificate from the Conseil de la science et de la technologie stating that the researcher has the required qualifications.

This measure will only apply to employment contracts reached between the day of the Budget Speech and January 1, 1991, for research and development expenditures incurred no later than December 31, 1992.

Synergy between universities and private enterprise

To increase cooperation between companies and universities and to raise the quality of industrial research in Québec, the refundable tax credit, which has been raised from 10 percent to 20 percent, will be increased to 40 percent and extended to all research and development expenditures incurred in Québec as part of a university research contract. The expenditures eligible for this 40 percent credit may therefore be current as well as capital in nature.

A university research contract will be defined as a contract between a corporation carrying on business in Canada and an eligible university entity which agrees to conduct research and development for the corporation. The research conducted under the contract must be related to the nature of the corporation's business; the corporation must have the right to make use of the results.

The term "eligible university entity" will mean:

- a university researcher, who must be a Québec university professor with at least full professor status;
- a university research team, which must include at least one university researcher, but may also include the staff of research centres and laboratories associated with a Québec university. Nevertheless, for the entire duration of the contract, such a team may not include an employee of the corporation which is having the research performed, or of an affiliated corporation, or a person who has ceased to be employed by such a corporation within the past six months; or
- a Québec university or any other body which the government recognizes and which abides by the terms set by the government.

The term research and development has the meaning given in current tax legislation. Under a university research contract, therefore, the total cost of a contract with an eligible university entity will generally be an eligible research and development expenditure. However, when a university research contract provides for joint research, only the portion of the expenditures incurred by the eligible entity on behalf of the corporation will entitle it to the 40 percent tax credit.

This measure will apply to research and development expenditures incurred no later than December 31, 1992 under a university research contract reached between the day of the Budget Speech and January 1, 1991.

In addition, to ensure that such expenditures will only be incurred under new university research contracts, the signing of any new contract covering, in general, the same research as an earlier contract between the same parties or related parties will be studied and, if the Minister of Revenue decides that the new contract covers research expenditures covered by an earlier contract, the new contract will not be considered a university research contract for the purposes of the 40 percent tax credit although it may be eligible for the 20 percent tax credit.

Finally, the following section contains specific measures concerning university research carried out by an individual, trust or partnership, or on their behalf.

Risk capital

High-technology companies must allocate a significant percentage of their annual profits to research and development. Given the high degree of risk in these activities, these companies must frequently turn to outside risk capital not only during their start-up phase, but throughout their existence.

Moreover, in financial markets, it is essential that investors be very sure about the potential tax advantages associated with their investment. In this regard, Québec has aligned its legislation with that of the federal government concerning rules for the amount at risk in an investment in a limited partnership. In addition, for a few months now, investors have been able to act with greater certainty since Revenue Canada has agreed to make advanced rulings available, with respect to both limited partnerships and research and development.

To facilitate raising risk capital to finance research and development in Québec, additional deductions are being introduced for individuals, including those using limited partnerships.

Additional deductions for individuals

In general, Québec's tax legislation on research and development allows the same expenditures and uses the same definitions as those in the federal tax legislation. Taxpayers carrying on business may deduct all research and development expenditures incurred in Canada, whether they are current or capital in nature.

After the day of the Budget Speech, an additional deduction of 33 1/3 percent of current and capital expenditures will be allowed individuals and trusts which operate directly a business in Canada in the same way as members of a partnership or limited partnership operating a similar business. This additional deduction will be granted for research and development expenditures incurred in Québec. It will replace the refundable tax credit, which will now only be available to corporations.

In addition, to the extent that such research and development expenditures are incurred on behalf of the individual, trust or partnership as part of a university research contract, the additional deduction of 33 1/3 percent will increase to 66 2/3 percent. For this purpose, the definition of a university research contract as well as the terms mentioned in the section concerning synergy between universities and the private sector apply, with suitable modifications.

Further, this measure, like the 40 percent tax credit, will only apply to university research contracts reached between the day of the Budget Speech and January 1, 1991 with respect to research and development expenditures incurred no later than December 31, 1992.

To determine if a capital expenditure was incurred in Québec in a given year, the asset must have been acquired during the year, for use in Québec within a reasonable period of time after its acquisition.

Finally, these additional deductions will be subject to the alternative minimum tax.

Use of limited partnerships

In the past, limited partnerships have frequently been used to channel capital towards high-risk projects. However, in the fall of 1984, because of concerns raised by the use of several tax shelters, Revenue Canada stopped issuing advanced rulings for limited partnerships and similar types of financing vehicles.

In February 1986, the federal government released a set of rules concerning the use of limited partnerships. It also introduced new rules on the amount at risk in investments in limited partnerships. The following May 1, Québec announced concordance measures in this regard.

In September 1986, Revenue Canada published Information Circular 86-4 entitled "Scientific Research and Experimental Development" and the guidelines given in this circular became effective the following November 3.

The groundwork has now been laid to maintain the fiscal integrity of financing vehicles which include tax incentives, and the parameters on what constitutes a research and development expenditure are clear. Once again, limited partnerships can be used for the purposes for which they were originally intended, that is, to encourage an investment whose risk can be identified and estimated at the outset.

Advanced rulings for limited partnerships

The additional deductions of 33 1/3 percent and 66 2/3 percent and the refundable tax credits of 20 percent and 40 percent, may only be claimed by an individual, a trust, or a corporation which are members of a limited partnership, if the ministère du Revenu has issued a favourable advanced ruling in their regard. The same condition will apply to the members of a partnership in which the liability of one of the members is limited. The ministère du Revenu may therefore require, in addition to the other stipulations mentioned in the interpretation bulletin "Impôts, Spécial 12" dated April 25, 1985, concerning advanced rulings, that the limited partnership or partnership, or its duly authorized representative, provide evidence that a favourable advanced ruling has been obtained from Revenue Canada with respect to the eligibility of the research and development.

Transitional period

To make allowance for individuals with interests in partnerships or limited partnerships that were operating a business on the date of the Budget Speech, the 10 percent refundable tax credit, newly raised to 20 percent, may be claimed in 1987, for the last time, but at the 20 percent rate, in regard to wages eligible as research and development expenditures paid after the day of the Budget Speech, but only from funds collected no later than that day. However, the partnership may, if requested by a member, advise him of his share of the expenditures eligible for the newly introduced additional 33 1/3 percent deduction, and the individual may claim this deduction if, in his income tax return for the year, he foregoes the 20 percent refundable tax credit with respect to these same expenditures.

For the purposes of ensuring that the funds were collected no later than the date of the Budget Speech, the only amounts considered will be those represented by amounts obtained either under a final prospectus, the receipt for which must be obtained no later than such date, or after such date but no later than June 30, 1987, if the preliminary prospectus was received no later than the day of the Budget Speech, or under an offering memorandum filed or a statement of registration produced no later than that day. Furthermore, only the amounts mentioned in the prospectus or, as the case may be, in the offering memorandum or the registration statement on the date of the Budget Speech will be considered to be amounts collected as at such date. However, an amount may also be considered to have been collected as at the date of the Budget Speech, even if it is only collected after such date, but no later than June 30, 1987, if it is used to pay an eligible research and development wage expense under a written contract reached prior to the date of the Budget Speech.

Other measures

Non-taxation of tax credits

On May 23, 1985, the federal Minister of Finance introduced a measure designed to subject to income tax any payment in the nature of an incentive payment or reimbursement with respect to the acquisition of an asset or the incurring of an expense. The following month, Québec's Minister of Finance announced that he intended to align Québec's tax legislation with the federal legislation concerning incentive and reimbursement payments, though he reserved the right to exempt certain payments from this measure.

It will be remembered that refundable tax credits for research and development granted under Québec's tax legislation are not subject to Québec income tax in any way, that is, they do not reduce deductible expenses, and are not taxable.

To increase the effectiveness of the package of tax benefits related to research and development expenditures, the federal investment tax credit allowed with respect to such expenditures will no longer reduce the amount of research expenditures, eligible as a deduction in calculating income, incurred after the day of the Budget Speech. As a corollary, this tax credit will be on the list of prescribed amounts for purposes of exempting certain incentive payments from income tax, if this credit is attributable to current or capital expenditures made in Canada after the day of the Budget Speech.

Research grants

Taxpayers who receive a grant to undertake research may deduct associated research expenditures if they are incurred during the year in which the grant is received.

Since a grant is generally awarded to enable the researcher to pay his expenses for as long as his research continues, which may exceed one year, from now on, taxpayers may also deduct, for the year during which the grant is received, research expenditures incurred in the year preceding or following the year in which the grant is received, up to the amount of the grant. However, with respect to expenditures incurred during the year preceding that in which the grant is received, only those incurred after confirmation is received that the grant will be awarded are eligible. Finally, with respect to expenditures incurred during the year after the year in which the grant is received, the taxpayer may file an amended tax return for the preceding year.

This measure will apply to research grants received in 1986 or later. However, with respect to those received in 1986, research expenditures incurred during the preceding year will not be deductible.

Impact of the fiscal and budgetary measures

On universities

Over the next four academic years, the additional assistance allocated to Québec universities will amount to $119 000 000, of which $ 40 000 000 is earmarked for 1987-1988. Given that part of this assistance will be financed by debt service, this will involve budgetary expenditures of $ 24 600 000 in fiscal 1987-1988.

SUMMARY OF ADDITIONAL FINANCIAL RESOURCES FOR UNIVERSITIES
(in millions of dollars)

	Academic year			
	1987-1988	1988-1989	1989-1990	1990-1991
Adjustment to university financing base	15	15	15	15
Reduction of university deficits	8	7	—	—
Indirect research costs	7	7	—	—
Scientific equipment	5	5	5	5
Libraries	5	5	—	—
TOTAL	**40**	**39**	**20**	**20**

On corporations

The tax measures introduced for corporations will reduce the net cost of research and development expenditures, thus placing Québec companies which hire researchers and conduct research and development in a more competitive position.

For instance, the net cost, to a large taxable manufacturing concern financing its research, of a $100 wage expenditure for research and development conducted in its own laboratories will be $40.00 compared to $46.58 under the existing system.

On the other hand, if salary expenditure accounts for 50 percent of total spending, the net cost, to the same concern, of a $100 expenditure for research and development conducted in its laboratories will be $45.34 rather than $49.30 under the existing system.

NET COST TO A TAXABLE CORPORATION OF A $ 100 WAGE EXPENDITURE FOR RESEARCH AND DEVELOPMENT 1987 TAXATION YEAR (in dollars)

	Present system	New system	
		Research carried out in business firms	Research carried out in universities
	10 % credit on wages	Credit on wages increased to 20 %	40 % credit on total expenditure
Manufacturing and processing			
☐ Eligible for SBD[1]	51.67	44.87	32.57
☐ Other active revenue	46.58	40.00	28.26
Other sectors			
☐ Eligible for SBD[1]	48.04	41.63	30.16
☐ Other active revenue	41.37	35.35	24.80

[1] Small business deduction.

NET COST TO A TAXABLE CORPORATION OF A $ 100 EXPENDITURE FOR RESEARCH AND DEVELOPMENT, OF WHICH 50 % IS IN WAGES 1987 TAXATION YEAR (in dollars)

	Present system	New system	
		Research carried out in business firms	Research carried out in universities
	10 % credit on wages	Credit on wages increased to 20 %	40 % credit on total expenditure
Manufacturing and processing			
☐ Eligible for SBD[1]	54.51	50.46	32.57
☐ Other active revenue	49.30	45.34	28.26
Other sectors			
☐ Eligible for SBD[1]	50.70	46.85	30.16
☐ Other active revenue	43.82	40.15	24.80

[1] Small business deduction.

On Individuals

The tax measures introduced for individuals will ease access to financing from personal funds for companies seeking outside capital for research and development. These measures will, indeed, reduce the net cost to individuals of an investment in research and development, thus reducing their financial risk. The tax benefit in this field will therefore be more competitive with tax benefits available in other sectors of the economy.

For instance, the net cost of a $100 research and development expenditure to an individual who, as sponsor, takes full advantage of the tax benefit will drop to $20.26 from $31.65 under the current system.

NET COST TO AN INDIVIDUAL OF A $ 100 INVESTMENT
IN RESEARCH AND DEVELOPMENT[1]
1987 TAXATION YEAR
(in dollars)

	Present system	New system	
		Research carried out in business firms	Research carried out in universities
	10 % credit on wages and deduction of 100 %	Deduction of 133 1/3 %	Deduction of 166 2/3 %
Federal			
Tax credit	19.00	20.00	20.00
Deduction of 100 %	22.35	23.53	23.53
Subtotal	41.35	43.53	43.53
Québec			
Tax credit	5.00	N/A	N/A
Deduction	22.00	36.21	45.27
Subtotal	27.00	36.21	45.27
NET COST	31.65	20.26	11.20

[1] The total investment constitutes an eligible research expenditure and half the expenditure is attributable to wages. In addition, this is the case of an individual whose income is taxable at the maximum marginal rate.
N/A: not applicable

On synergy between universities and private enterprise

The tax measures introduced to promote synergy between private enterprise and universities will significantly reduce the net cost, to companies, of having research and development carried out by universities. For instance, when a large taxable manufacturing and processing corporation funds university research contracts, the net cost of a $100 research and development expenditure of which 50 percent is in wages will drop from $49.30 under the existing tax system to $28.26 under the new system, a decrease of $21.04. With respect to contracts financed through limited partnerships, the net cost of a similar expenditure to individuals will fall from $31.65 under the current tax system to $11.20 under the new system, a reduction of $20.45.

The significance of these measures reflects the importance the government attaches to the transfer of results of university research to the private sector for commercial application. Furthermore, the universities' greater openness towards business will have a positive influence on the direction of university research, contribute to its funding, promote integration of graduates into business concerns and encourage better adaptation of training programs to the needs of innovative companies.

On the tax burden

The package of tax measures introduced with respect to research and development will reduce the tax burden borne by the business sector for a full taxation year by $102 000 000, based on planned research and development expenditures for 1988. This allows for the indirect impact of these measures on federal income tax.

The additional assistance to research and development in the form of tax credits and the non-taxation of research and development tax credits will amount to $37 000 000, while the measures concerning risk capital for financing research and development in Québec will reach $65 000 000 for taxation year 1988.

SUMMARY OF THE FINANCIAL IMPACT OF R&D MEASURES ON THE TAX BURDEN FOR THE FULL 1988 TAXATION YEAR
(In millions of dollars)

	Direct impact of measures on Québec income tax	Indirect impact on the investment tax credit[1] and federal income tax	Reduction in tax burden
Human resources and synergy	– 49	19	– 30
Non-taxation of tax credits	– 7	—	– 7
Risk capital[2]	– 46	–19	– 65
TOTAL	**–102**	**0**	**– 102**

Note: A (–) sign indicates a decrease in the tax burden.

[1] Federal investment tax credit for research and development expenditures.

[2] These amounts have been obtained by assuming that limited partnerships finance 20 percent of research and development expenditures, without taking into account the impact of these measures on the volume of R&D activities.

On the government's financial framework

The measures introduced with respect to research and development will cost the government $45 000 000 in 1987-1988, of which $20 000 000 is attributable to fiscal measures and $25 000 000 to budgetary measures to improve university financing.

FINANCIAL IMPACT OF RESEARCH AND DEVELOPMENT MEASURES ON THE GOVERMENT'S FINANCIAL FRAMEWORK
(In millions of dollars)

	1987-1988	1988-1989	1989-1990
Fiscal measures			
☐ Human resources and synergy	– 21	– 43	– 52
☐ Non-taxation of tax credits	– 4	– 8	– 8
☐ Risk capital	5	—	– 35
☐ Subtotal	– 20	– 51	– 95
Budgetary measures			
☐ Higher education and university research	– 25	– 30	– 20
TOTAL	**– 45**	**– 81**	**– 115**

Note: A (–) sign indicates a cost for the government.

Increase in public sector investments

Investments in highway safety

The Régie de l'assurance automobile du Québec has been able to reduce its expenditures in 1986, mainly because of the decrease in the number of traffic accidents. This fact and favourable economic conditions have enabled the Régie to earn a surplus. It has been decided that these savings will be returned to those who are chiefly responsible, i.e. Québec's drivers. This will be done in two ways: increased investments in highway safety and lower contributions to the public automobile insurance plan.

Over the next two years, the Régie will pay $200 000 000 to the government to finance capital investments in highway safety throughout Québec's highway system. In the weeks to come, the Minister of Transport will indicate how this work will be carried out. Projected investments for 1987-1988 amount to $60 000 000, with $70 000 000 planned for each of 1988-1989 and 1989-1990. Supplementary estimates of $60 000 000 will therefore be tabled in the National Assembly.

In addition, contributions to the public automobile insurance plan will drop, on average, by more than 10 percent. This will amount to $50 000 000 on an annual basis. The Minister of Transport will publish the new rate schedule in the coming weeks, and it will become effective next August 1.

Capital investment in the health sector

The annual expenditure envelope of the capital investment program for the ministère de la Santé et des Services sociaux will be increased by $27 000 000 for 1987-1988. Of these extra funds, $20 000 000 will be used to move the medical equipment capital spending program ahead one year, for public establishments, with $4 000 000 allocated to the Outaouais region.

In addition, an increase in the operating budgets of hospital centres in the Outaouais region is planned to enable them to provide better service to the region's population. Supplementary estimates of $5 000 000 will be tabled in the National Assembly to this end for the ministère de la Santé et des Service sociaux.

Furthermore, $20 000 000 will be spent over three years, of which $7 000 000 is allocated for 1987-1988, to improve safety in, and modernize, a number of private establishments. This increase in the expenditure envelope does not involve additional estimates for 1987-1988, insofar as these expenditures are financed by debt service and insofar as no interest will be paid on this debt before 1988-1989.

Assistance for Québec's regions

Regional Development Fund

Supplementary estimates of $10 000 000 will be tabled in the National Assembly for the Regional Development Fund. Total estimates allocated to this Fund in 1987-1988 will therefore amount to $22 359 000, thus maintaining last year's level of funding.

Other assistance for Québec's regions

In view of the urgent need to improve municipal roads, an additional sum of $5 000 000 will be granted to the ministère des Transports. An amount of $1 000 000 will also be added to the Fonds hors-normes of the ministère du Loisir, de la Chasse et de la Pêche to provide assistance to groups and regions which do not have access to the government's regular assistance programs.

An amount of $500 000 will also be added to the contingency fund of the ministère des Finances to increase the sum earmarked for promoting tourism.

Tax adjustments related to the capitalization of business firms

Creation of QSSP investment funds

In the Budget Speech of May 1, 1986, the Minister of Finance announced that consultation on the creation of QSSP investment funds was not conclusive, but that he would try to give some cohesion to the various viewpoints and reach a final decision. Consultation with the groups involved has continued and we are now in a position to describe the method of operation chosen for the investment funds, taking into account the opinions received to date.

The formula selected is that of a variable capital QSSP investment fund, that is, a fund guaranteeing that the value of the securities corresponds to the net asset value of the fund. However, the government is not discarding the possibility of authorizing, at the right moment, the creation of a fixed capital QSSP investment fund. It seems preferable nevertheless to monitor the development of this new QSSP vehicle before broadening its application.

The operation of a QSSP investment fund is relatively easy for investors to understand and leaves administrators and trustees with extensive room to manoeuvre. They are free to determine beforehand, if they so desire, the rate of deduction to which subscribers will be entitled for fund securities. This rate will depend on both the proportion of shares qualifying for the QSSP that the investment fund buys during the year and the various rates of deduction given with these qualifying shares.

Finally, with this formula, private investments by the QSSP investment fund qualify for the QSSP. In this context, a private investment is an investment for which a prospectus need not be filed, in keeping with the exemption given in section 51 of the Securities Act.

Thus, the formula's underlying principle ensures that the QSSP tax benefit accruing to a taxpayer who invests in a QSSP investment fund will generally be the same as the benefit he would have enjoyed had he purchased directly the same shares as those acquired by the QSSP investment fund.

This measure will come into force on January 1, 1988.

Definitions

In this measure,

(a) "Commission" means the Commission des valeurs mobilières du Québec;

(b) "QSSP investment fund" means an "unincorporated mutual fund" or a "mutual fund", within the meaning of the Securities Act, which has filed a prospectus for which the Commission has issued a receipt, which agrees to respect the QSSP qualification requirements for securities, which is established in Québec and whose administrators and trustees reside in Québec;

(c) "qualifying share" means a share issued by a qualified corporation in an issue of shares for which a receipt for a final prospectus has been issued or for which an exemption from filing a prospectus is given under section 51, 52 or 263 of the Securities Act, and which fulfils all other qualification requirements for a stock savings plan except the stipulation that it must be acquired by an individual or an investment group;

(d) "qualified corporation" means a corporation otherwise qualified under the stock savings plan;

(e) "stock savings plan" means an arrangement that is a stock savings plan under tax legislation, as well as such an arrangement made with a QSSP investment fund administrator or trustee for securities issued by that fund;

(f) "QSSP investment fund security" means an investment in an unincorporated mutual fund or a mutual fund that is a QSSP investment fund;

(g) "rate of deduction determined" for a security qualifying for one year means the rate for a qualifying security indicated in the prospectus or, if applicable, the rate resulting from the ratio between the adjusted cost of all the qualifying shares bought by the fund during the year in which the qualifying security was bought, and held at December 31 of that year, and the total proceeds of the issue of fund securities which, for that year, were qualifying securities;

(h) "qualifying security" means a QSSP investment fund security bought during a given year and held without interruption by the owner until December 31 of that year, for which the fund administrator or trustee has issued a statement indicating that the security can come under a stock savings plan.

Securities qualifying for a stock savings plan

As of the 1988 taxation year, the securities of a QSSP investment fund may be purchased for inclusion under a stock savings plan. The adjusted cost of a qualifying security for an individual will be equal to the cost of the qualifying security, determined without taking into account the borrowing costs, subscription or custody fees or similar related costs, multiplied by the rate of deduction determined for the qualifying security for the current year.

Operation of a QSSP investment fund

The prospectus of a QSSP investment fund must first stipulate that the fund agrees to invest all or part of its money in shares qualifying for a stock savings plan and to respect the following additional requirements:

- to have among its assets, at December 31 of a given year, shares that would qualify for a stock savings plan, for an adjusted cost at least equal to the adjusted cost of the securities that, for that year and the preceding two years, would have been qualifying securities; and

- have as assets among its securities, at December 31 of a given year, qualifying shares it bought during that year for an adjusted cost at least equal to the amount obtained by applying to the proceeds of the issue of QSSP investment fund securities which, for that year, were qualifying securities, either the rate of deduction stipulated in the prospectus for which the Commission issued a receipt, or the rate set for that year no later than the 60th day following the end of that year.

If, among the qualifying shares that the QSSP investment fund will have bought, there are any shares in major corporations, or subordinate shares other than those issued by a developing corporation carrying at least 1/10 of the voting rights of any other share in its capital stock, that part of the adjusted cost of the qualifying securities of the fund acquired by an individual that corresponds to the purchase of such qualifying shares by the fund will be subject to the $1 000 ceiling in the same way as such qualifying shares an individual buys directly. The administrator or fund trustee must then indicate on the statement he must produce, as well as in the prospectus if he decides to announce the rate of deduction beforehand, the proportion of the adjusted cost of the qualifying security of the fund that will correspond to the purchase of the qualifying share subject to the $1 000 ceiling.

Penalties

The penalty currently in force for corporations that falsely state in their prospectus that the shares they are issuing qualify for a stock savings plan will also apply to QSSP investment fund issues and will be paid by the fund administrator or trustee.

If, in a given year, the QSSP investment fund fails to respect all the commitments made in the prospectus describing the qualifying securities issue, the fund administrator or trustee will be penalized for a sum equal to 25 percent of the missing adjusted cost.

Administration

In order to qualify as QSSP securities, fund securities purchased during the course of a year must be in the taxpayer's account no later than January 31 of the following year.

If the purchaser of a security qualifying for a stock savings plan requests the fund administrator or trustee to include the security in a QSSP, the fund administrator or trustee must keep the certificate attesting to the adjusted cost of the security. Within 60 days of the end of the year, the administrator or trustee must send the taxpayer and the ministère du Revenu a statement specifying the adjusted cost of the qualifying securities included in a stock savings plan and the proportion of this cost, if applicable, to any qualifying shares subject to the $1 000 deduction limit.

An authorized trustee must keep the certificate for qualifying shares bought by a QSSP investment fund for auditing purposes. It is understood that, as regards the commitments the fund must respect, these qualifying shares need not necessarily be the shares that were originally entered in its books. Moreover, within three months following the end of each year, or the end of each of the two years after the last year of the fund's existence as a QSSP investment fund, the fund administrator or trustee must send the ministère du Revenu the information and documents required to confirm that the fund has respected its commitments.

Advanced rulings made compulsory for QSSPs

Québec's ministère du Revenu issues advanced rulings telling taxpayers what tax treatment will be given to the transactions they plan to carry out. Such rulings, among others, are rendered for the Québec Stock Savings Plan (QSSP), confirming, for example, whether or not corporations and shares qualify for the plan and the rate of deduction to which the shareholder will be entitled. Even though an advanced ruling is not mandatory for a share issue to qualify for QSSP purposes, almost all corporations planning an issue of QSSP securities request a ruling from the ministère du Revenu before making an issue.

Since May 1, 1986, the ministère du Revenu may refuse to rule if, in its opinion, the objectives of the stock savings plan are not respected. Despite this refusal, corporations can nevertheless proceed with the planned issue of securities under the QSSP.

In order to assure taxpayers that the corporations raise funds under the stock savings plan in keeping with the objectives of the program, henceforth, to qualify for the QSSP, a corporation or a QSSP investment fund must obtain from the ministère du Revenu a favourable ruling to the effect that it respects the objectives of the program, before obtaining its final prospectus. This measure will not apply to issues of shares under an exemption from filing a prospectus but will apply to those included in a private investment by a QSSP investment fund. This measure will apply to share issues that begin after the day of the Budget Speech, that is, to those issues for which a receipt for the final prospectus is received after the day of the Budget Speech.

Québec Business Investment Companies (QBICs)

Adapting the rules for fledgling businesses

Currently, for the shareholders of a QBIC to be entitled to a tax deduction, the QBIC must invest in a qualified corporation. To qualify as a qualified corporation, among other things, a corporation must do business in a sector of activity determined by regulation and, during the 12 months preceding the investment, and the two years following it, pay over 75 percent of its payroll to the employees of a Québec establishment.

In order to promote the development of fledgling businesses, the obligation to operate in qualifying sectors of activity must be respected within four months of making the investment and the salary requirement will be abandoned for the period preceding the investment, remaining in force only for the two-year period following the investment.

These new rules will apply to QBIC investments made after the day of the Budget Speech.

Tightening the non-arm's length rules

Additional restriction

An investment by a QBIC can only qualify if the QBIC deals at arm's length with the corporation in which it invests. To this end, non-arm's length dealings are deemed to exist between a QBIC and the corporation in which it invests when, among other things, the QBIC holds 50 percent or more of the voting shares of the corporation's capital stock.

To determine whether or not a QBIC holds this percentage of shares of the corporation in which it invests, the shares held in the qualified corporation by another QBIC, or a corporation associated with it must be added, among others, to the shares held by the QBIC.

To prevent the shareholders of a corporation and the people to whom they are related from taking control of the corporation by investing in it through a QBIC, henceforth, the shares held in such a corporation by corporations related to the QBIC or to such corporation, and not simply associated with it, will be considered in determining whether non-arm's length dealings exist between the QBIC and the corporation.

This measure will apply to all investments made by a QBIC after the day of the Budget Speech.

Related shareholders holding less than 5 percent of the shares

Under existing rules, a qualified corporation is reputed to have arm's length dealings, within the meaning of the Taxation Act, with a QBIC when each of the shareholders in the qualified corporation, excepting the QBIC, holds directly or indirectly, less than 5 percent of the voting shares of the qualified corporation's capital stock.

To ensure that this rule is respected when related persons hold shares in a qualified corporation, while at the same time allowing unrelated people to invest in a qualified corporation through a QBIC, henceforth, when determining whether a shareholder has less than 5 percent of the shares of a qualified corporation's capital stock, the shares held in that corporation by anyone related to the shareholder will be added to the shares he holds in it.

This measure will apply to all investments made by a QBIC after the day of the Budget Speech.

Indirectly held shares

The regulation respecting QBICs will be amended to specify that henceforth an individual holds shares indirectly when such shares are held by a corporation that he controls alone or with people related to him, or by a subsidiary of such a corporation or subsidiary of such subsidiary.

This measure will apply to investments in a QBIC made after the day of the Budget Speech.

A single class of common shares

The amount of the deduction to which the shareholder of a QBIC making a qualifying investment is entitled is based on his share in the qualifying investment, without exceeding his financial commitment in the QBIC.The share in a qualifying investment is generally obtained by applying to the investment the proportion of the paid-up capital represented by common shares of the QBIC with full voting rights owned by the shareholder to the total paid-up capital of the QBIC represented by common shares with full voting rights.

Some QBICs have several classes of common shares with full voting rights, each class entitling the owners to specific reserved surpluses. In this way, the shareholders of one class can avoid participating in the risk of other investments of a QBIC.

To prevent one group of shareholders of a QBIC from acting independently of the others, henceforth, the QBICs will be authorized to have only one class of common shares with full voting rights entitling the owner to a deduction. To this end, the different series of the same class of shares will be considered to be different classes.

This measure will apply to all shares of the capital stock of a QBIC issued after the day of the Budget Speech.

Fonds de solidarité des travailleurs du Québec (F.T.Q.)

An individual who is the initial purchaser of class "A" shares in the Fonds de solidarité des travailleurs du Québec (F.T.Q.) can benefit from a tax credit equal to 20 percent of the amount paid for the shares. Under the rules governing the fund, these shares may be redeemed only in the cases specifically provided for in the Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.) and purchased by agreement by the fund only in the cases and to the extent provided in a policy adopted by the board of directors of the fund and approved by the Minister of Finance. Such a policy was approved by the Minister of Finance and was applicable until April 30, 1987.

To ensure that the tax credit will only be granted for permanent capital, while enabling the fund to purchase shares by agreement in situations where it deems such a move to be in line with sound business practices, certain modifications are being made.

First, the policy of purchasing the fund's class "A" shares by agreement, approved on September 15, 1986, will again be approved by the Minister of Finance until March 1, 1988.

Second, following consultation, an amendment to the Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.) will be tabled, for humanitarian reasons, in order to add to the cases in which a share is redeemable, specifically mentioned in section 10 of this Act, the case of the person who is the initial purchaser of the share from the fund and requests redemption, if such person is suffering from a severe and prolonged disability resulting in a permanent inability to work. To determine whether a disability is severe and prolonged, the definition given in section 95 of the Act respecting the Québec Pension Plan will be used. If such an amendment to the Act creating the fund were passed, a person in such a situation would no longer be able to benefit from the tax credit for the purchase of the fund's class "A" shares.

Third, the fund must reimburse the tax credit when it purchases shares by agreement, that is, an amount equal to 20 percent of the cost of the purchased share. However, in order to enable the fund to complete its current share issue without having to recommence the whole process, this reimbursement will only apply to a purchase by agreement made after March 1, 1988.

Finally, to discourage the development of practices which run counter to the spirit of the Act, the fund will also have to refund the tax credit when the period between the issue of the share and its redemption by the fund is less than two years and when the redemption is made under the following circumstances:

- at the request of the person who bought it from the fund, if that person has reached the age of 65 or, after reaching the age of 60, took advantage of his right to an early retirement;
- at the request of an individual who holds the share without having bought it from the fund, if the person who bought it from the fund has reached the age of 65 or is deceased but would otherwise have been 65 years old.

This last measure will apply to shares issued after March 1, 1988.

2. MEASURES TO PROMOTE SOCIAL JUSTICE AND IMPROVE THE TAX SYSTEM

Improving the tax system as it affects families with children

The Issue

The precariousness of the financial situation of low-income wage earners is exacerbated by certain facets of the transfer and taxation systems. First, these systems are not integrated. A household may pay income tax although it receives government transfers to compensate for insufficient income. As a result, such a household must finance a portion of the transfers it receives through its taxes, which reduces the efficiency of government assistance. Cumulatively, taxation rates and rates of reduction of transfers mean that most of the additional gains of low-income wage earners are recaptured by the government, thus appreciably reducing the incentive to work. For example, in 1987, a two-parent family with two children will pay tax on income of $13 004 or more, while the work income supplement may be granted on income of up to about $20 000. When one parent does one additional hour of work and annual household income is $16 000, the government will recapture 75 percent of the income derived from the additional hour through income tax and a reduction in the work income supplement.

This problem is made more acute for low-income families by the fact that the wage earner's income is set without taking into account family obligations, while such obligations are taken into account by transfer programs. This situation can act as a powerful disincentive to work among low-income wage earners. The increase in disposable employment income in a household where the parents have low incomes is thus much lower than for a single person or for a childless couple.

While the taxation system takes adequate account of child care costs for wage earners who pay taxes, regardless of the type of child care, assistance for low-income wage earners under transfer programs is inadequate for families whose children are not cared for in places recognized by the Office des services de garde à l'enfance. This is a major obstacle to entering the labour market for low-income wage earners, especially heads of single-parent families with young children.

Although the taxation system is satisfactory for all families, as it recognizes the cost of the essential needs of dependent children, the limited number of families with more than two children suggests that large families should receive additional assistance from the government.

Changes in taxation and assistance programs

Tax reduction for low and middle-income families

To better reflect the financial situation of families with dependent children and facilitate better integration of the taxation system with transfer programs, a tax reduction based on income will be introduced as of January 1, 1988 for parents with dependent children under 21, or 21 or over and studying full time. The maximum reduction will be $465 for a parent, or a total tax reduction of $930 for a couple with at least one dependent child. Single-parent families which do not share an independent dwelling with another adult will be eligible for an additional tax reduction of $300, for a total reduction of $765. This measure is explained in detail in the section "Application rules of the tax reduction and the APPORT program" (p. 37).

By substantially increasing the zero tax threshold for families with children, this tax reduction will eliminate tax for low-income families who usually receive government transfers. In 1987, a couple with two dependent children aged between 6 and 11, where one spouse earns employment income, begins to pay tax at an income of $13 004. With the new tax reduction, in 1988, this couple will only begin to pay tax at an income of $20 822. For single-parent families with one child under 6 which claim the maximum child care expense deduction, the zero tax threshold will rise from $13 842 in 1987 to $19 311 in 1988.

Only low and middle-income families will benefit from this tax reduction. Although it will decrease progressively for families whose incomes exceed the new zero tax threshold, it will still be substantial for many of them. For example, the tax reduction, which will reach a maximum of $930 on income of $20 822 for a family with two children, will nonetheless total $773 for a similar family earning $25 000. Such a family will benefit from the tax reduction, which will decrease gradually, up to an income level of $34 500.

COMPARISON OF WORK INCOME THRESHOLDS AT WHICH TAX IS PAYABLE (QUÉBEC)
(In dollars)

	Taxation year	
	1987	1988
Couple with two children, 6-11		
☐ one work income	13 004	20 822
☐ two equal work incomes		
— before deduction for child care expenses	13 600	21 736
— after deduction for child care expenses	15 541	25 871
Couple with one child under 6		
☐ one work income	13 579	20 116
☐ two equal work incomes		
— before deduction for child care expenses	14 127	20 982
— after deduction for child care expenses	17 005	25 138
Single-parent family with one child under 6		
— before deduction for child care expenses	10 040	15 370
— after deduction for child care expenses	13 842	19 311

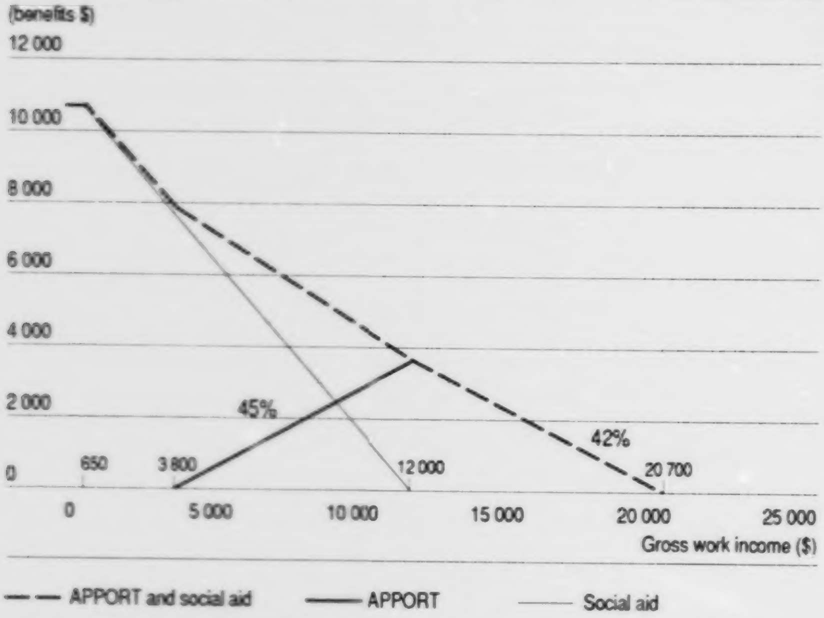
New assistance program for low-income working families

Starting in 1988, a new assistance program for low-income working families (APPORT) will be introduced. The program is intended for low-income working families with dependent children and will grant financial assistance tied to active employment of the parents, thereby encouraging them to remain employed or, if they are receiving social aid, to remain employed or to seek employment.

Under the new program, working families will receive benefits in addition to their income during the year. APPORT benefits will be paid in monthly instalments by the government. Such benefits will be reconciled at the end of the year when the beneficiary's tax return is filed.

The program, combined with the elimination of tax for low-income working families, will enable parents earning low wages to keep a larger portion of their employment income. As the following graph indicates, a two-parent family may keep 45 percent of employment income in excess of $3 800 while benefiting from social assistance or 58 percent of such income where it benefits only from the APPORT program, in which case the rate of reduction of benefits is 42 percent.

APPORT AND SOCIAL AID IN 1988
COUPLE WITH TWO CHILDREN, 6-11,
ONE WORK INCOME



APPORT BENEFITS ON AN ANNUAL BASIS IN 1988 (in dollars)

	Maximum APPORT benefits			Income level at which	
	Assistance before child care expenses	Child care assistance[1]	Total	Maximum benefits are paid	Benefits cease
Couple with two children between 6 and 11					
☐ one work income	3 574	0	3 574	11 750	20 700
☐ two work incomes					
— before deduction for child care expenses	3 572	0	3 572	11 400	21 200
— after deduction for child care expenses	3 571	1 216	4 787	11 700	25 350
Couple with one child under 6					
☐ one work income	3 418	0	3 418	11 100	19 700
☐ two work incomes					
— before deduction for child care expenses	3 403	0	3 403	10 800	20 100
— after deduction for child care expenses	3 403	1 021	4 424	10 800	24 300
Single-parent family with one child under 6					
— before deduction for child care expenses	2 599	0	2 599	8 800	15 500
— after deduction for child care expenses	2 599	1 790	4 389	8 800	19 450

[1] The table shows maximum total APPORT benefits. However, the amount shown for child care assistance is not always the maximum.

Moreover, the APPORT program will remedy an aspect of the major transfer programs, which do not recognize the cost of child care in places the Office des services de garde à l'enfance has not approved, an obstacle for low-income earners to entering the labour market, especially in the case of single-parent families. Under this program, such costs incurred by parents in order to work may be deducted for the purpose of calculating APPORT benefits, resulting in between 42 percent and 55 percent compensation for child care expenses.

Beneficiaries of the APPORT program will receive benefits on a family income of up to $20 700 for a couple with two children between 6 and 11 and with one spouse earning employment income, and $19 450 for a single-parent family with a child under 6 and claiming the child care expense deduction. Since these families will not pay tax on incomes below $20 822 and $19 311 respectively, this transfer program will be almost perfectly integrated with the tax system. Maximum benefits under the program will total $3 574 in the case of the couple and $4 389 in the case of the single-parent family, including $1 790 tied to recognition of child care expenses in the latter instance, if the single parent claims the maximum child care expense deduction.

Gradual abolition of the work income supplement

The current work income supplement program (SUPRET) provides benefits for low-income wage earners, especially those with children. Individuals 30 or over without children are also eligible for the program. Benefits may be paid for up to two years following the commencement of employment. Consequently, and because the program does not recognize child care expenses incurred, its efficacy was usually limited.

With the introduction of the new assistance program for low-income families (APPORT), SUPRET is no longer necessary for families with children and it will be abolished after 1987. Eligible beneficiaries who requested assistance under the program prior to April 30, 1987 will receive benefits; the last payment will be made in March 1988.

However, a transitional period is introduced for single persons and families without children. Such eligible persons who make timely application will receive 66 2/3 percent and 33 1/3 percent of the work income supplement payable in 1988 and 1989 respectively.

Non-recapture of family allowances with respect to the third child

Under current regulations, Québec family allowances paid as tax credits with respect to the fourth and subsequent children are not recaptured.

To provide additional financial assistance for large families, Québec family allowances paid with respect to the third child will no longer be recaptured, beginning in the 1987 taxation year. The maximum amount of family allowances recaptured will fall from $411 to $239.76, a gain of $171.24 in 1987 for families with three children or more, and paying income tax.

Modification of the availability allowance

Under current rules, an availability allowance is paid to families with children under 6: the allowance is $300 for the first child, $200 for the second and $100 for each subsequent child. For income tax purposes, taxpayers may choose between the availability allowance and the child care expense deduction.

Starting in the 1987 taxation year, the availability allowance will be modified to orient it more toward families with three or more young children and to assist in financing the new measures for low-income families. To this end, the allowance will be $100 for the first child under 6, $200 for the second child and $500 for each additional child under age 6.

However, compensation will be granted for taxation years 1987, 1988 and 1989 to social aid recipients who receive an availability allowance of $300 or less. This compensation will raise the availability allowance by the equivalent of $17 per month of benefit from social aid, during the year, for the 1987 and 1988 taxation years, and $8 per month of benefit for 1989. To this end, the ministère de la Main-d'oeuvre et de la Sécurité du revenu will indicate on the statements of social aid benefits the number of months during which benefits were received.

Additional assistance to day care centres

To sustain the development of day care centres in Québec, the government will provide an additional $4 200 000 in 1987-1988 and $4 700 000 in the next fiscal year, with the result that 500 places will be created in profit-making day care centres, 1 000 family day care places and 1 100 places in non-profit-making day care centres. Moreover, the ceiling on the grant covering day care centre premises will be increased from $8 000 to $9 000.

An additional amount of $3 800 000 will also be entered under the contingency fund of the ministère des Finances for new day care centre projects.

Deduction for child care expenses

Under the present system, the amount that can be deducted for child care depends on the age of the child for whom these expenses are incurred. At present, the maximum deduction for a child under 6 on December 31 of a given year is $3 640 per year, and $1 820 for other eligible children. The amount of this deduction is established on the basis of the child's age to take into account actual child care expenses, which are usually higher for children not attending school on a full-time basis.

At present, a child must have reached age 6 before October 1 of the current school year to register at elementary school. A child who reaches age 6 after September 30 cannot attend school on a full-time basis for that year, and his parents' child care expenses deduction is lower.

In order to take actual child care expenses into account, the maximum amount for child care expenses granted for a child under 6 will also be granted for a child who turns 6 after September 30 of that year.

For taxation purposes, this measure will apply to the 1987 taxation year, and also to the child care expenses considered in the new APPORT program.

Impact of measures

On families

Changes in taxation legislation affecting families will increase disposable household income by $188 000 000 during the 1988 taxation year.

Measures which will come into effect during the 1987 taxation year governing changes in the availability allowance and the non-recapture of Québec family allowances paid with respect to the third child will only affect disposable household income starting in 1988.

IMPACT ON DISPOSABLE HOUSEHOLD INCOME OF CHANGES IN TAX LEGISLATION AFFECTING FAMILIES
1988 TAXATION YEAR
(in millions of dollars)

Tax reduction	169
New assistance program for low-income families (APPORT)	65
Gradual abolition of SUPRET (work income supplement)	- 24
Reorganization of availability allowance	- 48
Non-recapture of family allowances for the third child	22
Concordance of consumption tax credit and property tax refund with tax reduction	5
TOTAL IMPACT	188

Note 1: A (–) sign indicates a drop in disposable income.

Note 2: Because of rounding, figures may not add up to the total shown.

The tax reduction granted to families with dependent children will eliminate the tax liability of 45 000 families and reduce the taxes of 300 000 others. An estimated 44 000 families, including 24 000 single-parent families will benefit from the APPORT program. About 6 000 single people and 2 000 childless couples will be affected by the gradual elimination of the SUPRET program. However, about 27 000 more families should benefit from the new APPORT program.

The impact of changes will vary depending upon the number of children, household income and whether or not members of the household earn employment income or receive the availability allowance, SUPRET or the child care expense subsidy.

Generally, families which will benefit from these changes are those with employment income of between $3 000 and $34 000.

A two-parent family with two children between 6 and 11 and an income of about $12 000 will receive maximum benefits under the APPORT program. Families with slightly higher incomes will receive lower benefits under the program, but will not pay income tax. For example, such a family earning $18 000 will receive APPORT benefits totaling $1 083 and tax of $553 will be completely eliminated, for an overall gain of $1 708, reflecting all changes. If this same family were receiving SUPRET benefits, amounting to $667 at this level of income, the gain would be $1 041. The maximum tax reduction will be made on income of $21 000 and will gradually decrease as income rises to $34 500.

Benefits under the APPORT program will be more substantial for families with child care expenses. For example, a single-parent family earning $9 000 in employment income will receive $4 335 under the program, of which $1 811 will result from the recognition of child care expenses.

GAIN[1] DERIVED FROM THE CHANGES COUPLE WITH TWO CHILDREN, 6-11, ONE WORK INCOME, WITHOUT SUPRET 1988 TAXATION YEAR (in dollars)

Household work income	Québec income tax and transfers[2] before Budget	Gain derived from the changes				Québec income tax and transfers[2] after Budget
		APPORT	Tax reduction	Other measures	Total gain	
0	11 140	—	—	—	—	11 140
3 000	8 969	—	—	—	—	8 969
6 000	6 304	864	—	—	864	7 168
9 000	3 434	2 074	—	—	2 074	5 508
12 000	276	3 480	—	1	3 481	3 757
15 000	270	2 288	51	10	2 348	2 618
18 000	- 250	1 083	553	73	1 708	1 458
21 000	- 868	—	1 100	129	1 230	362
25 000	- 1 700	—	773	102	875	- 825
30 000	- 2 764	—	315	33	349	- 2 415
35 000	- 3 936	—	—	—	—	- 3 936
40 000	- 5 149	—	—	—	—	- 5 149

Note: A (–) sign indicates that the amount of transfers is lower than the income tax amount, or that transfers are reduced.

1 Gain resulting from APPORT benefits and the reduction in tax, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

2 Transfers include the amounts received from social aid, APPORT, Québec family allowances and the property tax refund.
Taxes include Québec income tax and the amount recovered in Québec family allowances, less the tax credit for consumption taxes.

GAIN[1] DERIVED FROM THE CHANGES COUPLE WITH TWO CHILDREN, 6-11, ONE WORK INCOME, WITH SUPRET 1988 TAXATION YEAR (in dollars)

Household work income	Québec income tax and transfers[2] before Budget	Gain derived from the changes					Québec income tax and transfers[2] after Budget
		APPORT	SUPRET	Tax reduction	Other measures	Total gain	
0	11 140	—	—	—	—	—	11 140
3 000	8 969	—	—	—	—	—	8 969
6 000	6 797	864	- 493	—	—	371	7 168
9 000	4 779	2 074	-1 345	—	—	729	5 508
12 000	2 846	3 480	-2 570	—	1	911	3 757
15 000	1 894	2 288	-1 624	51	10	724	2 618
18 000	417	1 083	- 667	553	73	1 041	1 458
21 000	- 868	—	—	1 100	129	1 230	362
25 000	-1 700	—	—	773	102	875	- 825
30 000	-2 764	—	—	315	33	349	- 2 415
35 000	-3 936	—	—	—	—	—	- 3 936
40 000	-5 149	—	—	—	—	—	- 5 149

Note: A (–) sign indicates that the amount of transfers is lower than the income tax amount, or that transfers are reduced.

1 Gain resulting from APPORT benefits and the reduction in tax, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

2 Transfers include the amounts received from social aid, APPORT, SUPRET, Québec family allowances and the property tax refund.
Taxes include Québec income tax and the amount recovered in Québec family allowances, less the tax credit for consumption taxes.

TRANSFERS PAID TO FAMILIES[1] (QUÉBEC AND FEDERAL) 1988 TAXATION YEAR (in dollars)

	Couple with two children, 6-11, one work income		Single-parent family with one child under 6, not sharing a housing unit with another adult		
Household work income	APPORT	Total transfers[1]	APPORT Before deduction of child care expenses[2]	APPORT After deduction of child care expenses[2]	Total transfers[1]
0	—	12 785	—	—	8 898
3 000	—	10 597	66	726	7 187
6 000	864	8 794	1 245	2 565	6 359
9 000	2 074	7 135	2 524	4 335	5 213
12 000	3 480	5 393	1 394	2 977	3 855
15 000	2 288	4 201	201	1 785	2 663
18 000	1 083	2 996	—	580	1 458
21 000	—	1 913	—	—	878

[1] Transfers include social aid, federal and Québec family allowances, the federal child tax credit and the new APPORT program, after deduction of child care expenses, if any.

[2] Without any grant from the Office des services de garde à l'enfance for child care expenses.

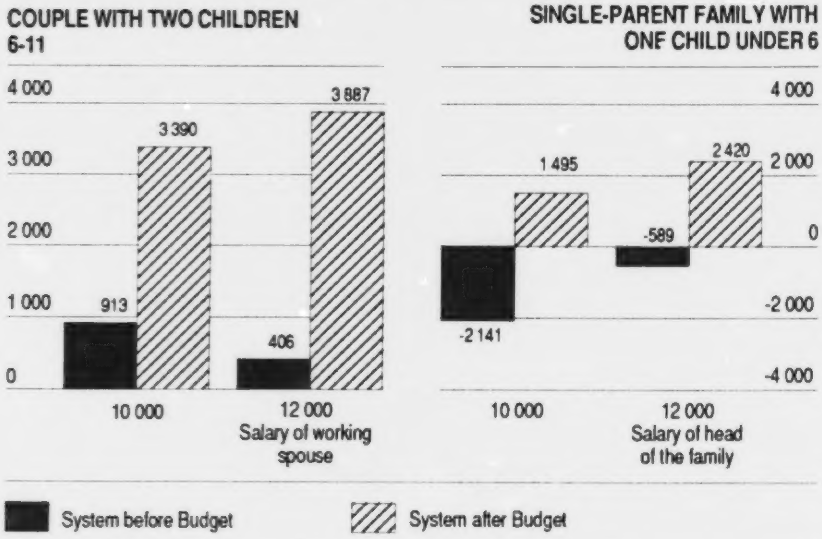
On the financial advantage of seeking employment or remaining on the labour market

The APPORT program will offer more of an incentive for wage earners with dependent children to seek employment or remain on the labour market, as government financial assistance under this program will increase net gains derived from employment. Moreover, benefits will be paid monthly, at about the same time as the beneficiary's wages.

For a couple with two children between 6 and 11, if one spouse earning low wages enters the job market under the current system, disposable income hardly increases compared with what the family would receive in the form of social aid. For example the disposable annual income of a family in which one spouse accepts a job paying $12 000 a year is increased by only $406. Under the APPORT program, disposable income will increase by $3 887 a year. Thus, from the time the wage earner enters the labour market, the implicit marginal taxation rate will be reduced from 97 percent to 68 percent.

The financial incentive for heads of single-parent families with a young child to work rather than remaining social aid recipients also depends on child care expenses. For example, under the current system, where such a household does not receive SUPRET assistance or the child care expense subsidy and the head of the family decides to work for an annual wage of $12 000, disposable income drops by $589 a year. Under the APPORT program, the disposable income of such a wage earner will not decline but rise by $2 420 a year, reflected in additional monthly income.

INCREASE IN DISPOSABLE INCOME AFTER ENTERING THE LABOUR MARKET 1988 TAXATION YEAR (in dollars)



GAIN[1] DERIVED FROM THE CHANGES COUPLE WITH CHILDREN UNDER 6, WITHOUT SUPRET 1988 TAXATION YEAR (in dollars)

	Couple with one child under 6 one work income				Couple with three children under 6 one work income			
Household work income	APPORT	Tax reduction	Other measures	Total gain	APPORT	Tax reduction	Other measures	Total gain
0	—	—	—	—	—	—	200	200
3 000	—	—	—	—	—	—	200	200
6 000	978	—	—	978	876	—	200	1 076
9 000	2 188	—	—	2 188	2 086	—	200	2 286
12 000	3 079	—	– 199	2 880	3 480	—	201	3 681
15 000	1 887	118	– 168	1 837	2 288	138	205	2 631
18 000	681	658	– 106	1 233	1 083	595	262	1 940
21 000	—	1 015	– 71	944	—	1 168	319	1 487
25 000	—	633	– 112	521	—	1 037	304	1 341
30 000	—	238	– 179	59	—	550	233	784
35 000	—	—	– 200	– 200	—	183	200	383
40 000	—	—	– 200	– 200	—	178	200	378

Note: A (–) sign indicates a reduction in transfers or an increase in income tax.

1 Gain resulting from APPORT benefits and the reduction in income tax, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

Taxes include Québec income tax and the amount recovered in Québec family allowances, less the consumption tax credit.

GAIN[1] DERIVED FROM THE CHANGES
COUPLE WITH CHILDREN UNDER 6, WITH SUPRET
1988 TAXATION YEAR

(in dollars)

Household work income	Couple with one child under 6 one work income					Couple with three children under 6 one work income				
	APPORT	SUPRET	Tax reduction	Other measures	Total gain	APPORT	SUPRET	Tax reduction	Other measures	Total gain
0	—	—	—	—	—	—	—	—	200	200
3 000	—	—	—	—	—	—	—	—	200	200
6 000	978	- 616	—	—	362	876	- 515	—	200	561
9 000	2 188	- 1 469	—	—	720	2 086	- 1 368	—	200	919
12 000	3 079	- 2 228	—	- 199	652	3 480	- 2 315	—	201	1 366
15 000	1 887	-1 282	118	- 168	556	2 288	- 1 624	138	205	1 006
18 000	681	- 325	658	- 106	908	1 083	- 667	595	262	1 272
21 000	—	—	1 015	- 71	944	—	—	1 168	319	1 487
25 000	—	—	633	- 112	521	—	—	1 037	304	1 341
30 000	—	—	238	- 179	59	—	—	550	233	784
35 000	—	—	—	- 200	- 200	—	—	183	200	383
40 000	—	—	—	- 200	- 200	—	—	178	200	378

Note: A (-) sign indicates a reduction in transfers or an increase in income tax.

1 Gain resulting from APPORT benefits and the reduction in income tax, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

Taxes include Québec income tax and the amount recovered in Québec family allowances, less the consumption tax credit.

GAIN[1] DERIVED FROM THE CHANGES
SINGLE-PARENT FAMILY WITH ONE CHILD UNDER 6, WITHOUT SUPRET
1988 TAXATION YEAR

(in dollars)

Household work income	Without grant for child care expenses (OSGE)				With grant for child care expenses (OSGE)			
	APPORT	Tax reduction	Other measures	Total gain	APPORT	Tax reduction	Other measures	Total gain
0	—	—	—	—	—	—	—	—
3 000	726	—	- 300	426	66	—	—	66
6 000	2 565	—	- 300	2 265	1 245	—	—	1 245
9 000	4 335	—	- 300	4 035	2 960	—	- 300	2 660
12 000	2 977	291	- 259	3 009	1 831	291	- 257	1 865
15 000	1 785	131	20	1 936	966	478	63	1 507
18 000	580	657	83	1 320	34	873	108	1 015
21 000	—	716	107	823	—	664	106	771
25 000	—	381	103	485	—	381	103	485
30 000	—	40	72	112	—	40	72	112
35 000	—	—	—	—	—	—	—	—
40 000	—	—	—	—	—	—	—	—

Note: A (-) sign indicates a reduction in transfers or an increase in taxes.

OSGE: Office des services de garde à l'enfance

1 Gain resulting from APPORT benefits and the reduction in taxes, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

Taxes include Québec income tax and the amount recovered in Québec family allowances, less the consumption tax credit.

GAIN[1] DERIVED FROM THE CHANGES
SINGLE-PARENT FAMILY WITH ONE CHILD UNDER 6, WITH SUPRET
1988 TAXATION YEAR
(in dollars)

Household work income	Without grant for child care expenses (OSGE)					With grant for child care expenses (OSGE)				
	APPORT	SUPRET	Tax reduction	Other measures	Total gain	APPORT	SUPRET	Tax reduction	Other measures	Total gain
0	—	—	—	—	—	—	—	—	—	—
3 000	726	- 703	—	- 300	- 277	66	- 703	—	—	- 637
6 000	2 565	- 1 358	—	- 300	907	1 245	- 1 358	—	—	- 113
9 000	4 335	- 2 030	—	- 300	2 005	2 960	- 2 030	—	- 300	630
12 000	2 977	- 2 228	291	- 259	782	1 831	- 2 228	291	- 257	- 363
15 000	1 785	- 1 282	131	20	655	966	- 1 282	478	63	225
18 000	580	- 325	657	83	994	34	- 325	873	108	690
21 000	—	—	716	107	823	—	—	664	106	771
25 000	—	—	381	103	485	—	—	381	103	485
30 000	—	—	40	72	112	—	—	40	72	112
35 000	—	—	—	—	—	—	—	—	—	—
40 000	—	—	—	—	—	—	—	—	—	—

Note: A (–) sign indicates a reduction in transfers or an increase in taxes.

OSGE: Office des services de garde à l'enfance

1 Gain resulting from APPORT benefits and the reduction in taxes, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

Taxes include Québec income tax and the amount recovered in Québec family allowances, less the consumption tax credit.

GAIN[1] DERIVED FROM THE CHANGES
COUPLE WITH TWO CHILDREN, 6-11, WHERE THE TWO SPOUSES WORK, WITHOUT SUPRET
1988 TAXATION YEAR
(in dollars)

Household work income	One spouse earns $ 10 000 Without grant for child care expenses (OSGE)				One spouse earns $ 10 000 With grant for child care expenses (OSGE)			
	APPORT	Tax reduction	Other measures	Total gain	APPORT	Tax reduction	Other measures	Total gain
12 000	3 808	—	—	3 808	3 521	—	—	3 521
15 000	3 190	—	2	3 192	2 507	15	5	2 527
18 000	2 655	—	3	2 658	1 727	263	36	2 026
21 000	1 653	292	40	1 985	861	616	81	1 558
25 000	84	954	120	1 158	—	1 039	118	1 157
30 000	—	726	83	809	—	648	64	713
35 000	—	289	13	302	—	275	9	284
40 000	—	—	—	—	—	—	—	—

Note: A (–) sign indicates a reduction in transfers or an increase in taxes.

OSGE: Office des services de garde à l'enfance

1 Gain resulting from APPORT benefits and the reduction in taxes, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

Taxes include Québec income tax and the amount recovered in Québec family allowances, less the consumption tax credit.

GAIN[1] DERIVED FROM THE CHANGES COUPLE WITH TWO CHILDREN, 6-11, WHERE THE TWO SPOUSES WORK, WITH SUPRET 1988 TAXATION YEAR (in dollars)

Household work income	One spouse earns $10 000 Without grant for child care expenses (OSGE)					One spouse earns $10 000 With grant for child care expenses (OSGE)				
	APPORT	SUPRET	Tax reduction	Other measures	Total gain	APPORT	SUPRET	Tax reduction	Other measures	Total gain
12 000	3 808	−2 541	—	—	1 267	3 521	−2 414	—	—	1 107
15 000	3 190	−1 617	—	2	1 575	2 507	−1 617	15	5	910
18 000	2 655	− 760	—	3	1 898	1 727	− 760	263	36	1 266
21 000	1 653	—	292	40	1 985	861	—	616	81	1 558
25 000	84	—	954	120	1 158	—	—	1 039	118	1 157
30 000	—	—	726	83	809	—	—	648	64	713
35 000	—	—	289	13	302	—	—	275	9	284
40 000	—	—	—	—	—	—	—	—	—	—

Note: A (−) sign indicates a reduction in transfers or an increase in taxes.

OSGE: Office des services de garde à l'enfance

[1] Gain resulting from APPORT benefits and the reduction in taxes, plus the impact of other measures, namely those concerning the availability allowance and the concordance of the consumption tax credit and the property tax refund with the new tax reduction.

Taxes include Québec income tax and the amount recovered in Québec family allowances, less the consumption tax credit.

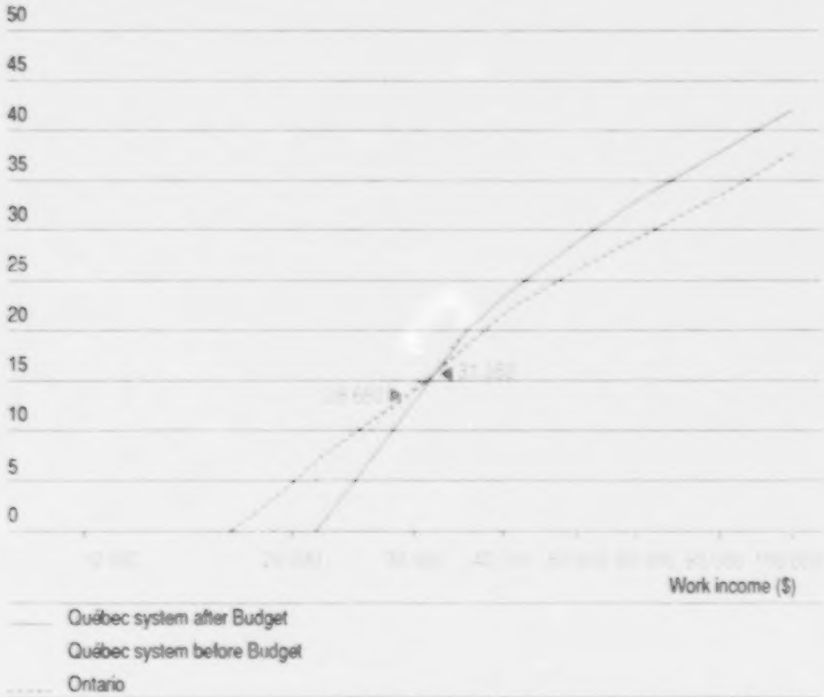
CHANGES IN AVERAGE TAX RATES COUPLE WITH TWO CHILDREN, 6-11 ONE WORK INCOME[1] (as a percentage)

Work income	1985	1986	1987	1988	
				Before Budget	After Budget
15 000	2.1	0.7	0.8	0.7	0
20 000	5.9	4.4	4.5	4.5	0
25 000	8.7	7.2	7.4	7.4	4.9
30 000	11.0	9.6	9.8	9.8	9.1
40 000	14.5	13.2	13.3	13.4	13.4
50 000	17.0	15.5	15.7	15.7	15.7
75 000	21.2	19.0	19.1	19.2	19.2

Note: The average Québec tax rate is equal to the income tax as a percentage of the household work income. Taxes include personal income tax, less the consumption tax credit and the non-recaptured portion of the Québec family allowances received by the household.

[1] Income is expressed in 1987 dollars according to changes in the consumer price index (Montréal).

AVERAGE TAX RATES
QUÉBEC AND ONTARIO
COUPLE WITH TWO CHILDREN, 6-11, AND ONE WORK INCOME
1988 TAXATION YEAR
(as a percentage)



Note 1: Federal and provincial income tax and health insurance contributions less family allowances, tax credits and taxes.

Note 2: The graph is drawn on a semi-logarithmic scale.

On the government's financial framework

Changes in tax legislation affecting families will cost the government $48 000 000 in 1987-1988, $129 000 000 in 1988-1989 and $201 000 000 in 1989-1990.

The impact on the government's financial framework will be felt gradually, achieving its full effect in 1989-1990, when the tax reduction for low and middle-income families will cost Québec $173 000 000 and represent the major portion of the cost of changes in tax legislation affecting families. The new assistance program for low-income families and the non-recapture of family allowances for the third child will cost $63 000 000 and $24 000 000, respectively.

However, the cost of these changes will be reduced through gradual abolition of the SUPRET program, which will lead to a $24 000 000 drop in expenditures in 1989-1990, and the modification of the availability allowance, the cost of which will fall by $48 000 000 during the same fiscal year.

FINANCIAL IMPACT OF CHANGES IN TAX LEGISLATION AFFECTING THE FAMILY (in millions of dollars)

	1987-1988	1988-1989	1989-1990
Tax reduction	– 22	– 95	– 173
New assistance program for low-income families (APPORT)	– 15	– 61	– 63
Gradual abolition of SUPRET (work income supplement)	0	22	24
Reorganization of availability allowance	0	48	48
Non-recapture of family allowances for the third child	– 3	– 34	– 24
Concordance of consumption tax credit and refund of property taxes with tax reduction	0	0	– 5
Additional assistance to day care centres	– 8	– 9	– 9
TOTAL IMPACT	– 48	– 129	– 201

Note 1: A (–) sign indicates a cost for the government.

Note 2: Because of rounding, figures may not add up to the totals shown.

Application rules of the tax reduction and the APPORT program

The following text describes the technicalities of the application of the APPORT program, and gives a precise description of how the benefits under the program as well as the tax reduction will be calculated. Measures will be taken allowing taxpayers to easily calculate the amounts to which they are entitled. The procedures cover eligibility criteria, rules for calculation and administration.

Tax reduction for low and middle-income families

Eligibility criteria

To be entitled to the tax reduction for the year, the applicant and his spouse, if any, must have resided in Québec on December 31 of the year, and, during the year, have at least one dependent child under 21, or 21 or over still studying full time, whom the applicant must designate.

The reduction will depend upon the applicant's family situation and will be used to cancel or reduce tax normally payable. The unused portion of the reduction may be used to reduce the income of the applicant's spouse, if applicable.

For the purposes of the tax reduction, the person who, during the year, has been living in a de facto union with the applicant for at least one year is deemed to be his spouse for the year.

Rules for calculation

To calculate the amount of reduction to which the applicant is entitled, his total income, that of the spouse and that of the dependent child he has designated to be eligible for the reduction will be taken into consideration. The tax reduction granted for a year will first be reduced by 7 percent of the spouses' total income in excess of deductions granted with respect to the reduction.

For purposes of this calculation, total income will be established exactly as for the purpose of the Québec consumption tax credit and the property tax refund. Such income includes notably net income from an office or employment earned by spouses, net income from businesses or property, and income from transfers such as social aid benefits and workmen's compensation benefits (CSST).

Deductions granted for the purpose of the tax reduction will be the same as those accorded with regard to the Québec consumption tax credit and the property tax refund. A further deduction reflecting the increase in the zero tax threshold will also be granted. Couples will enjoy an additional deduction of $5 880; for single-parent families not sharing an independent dwelling with a person other than a dependent child, the deduction will be $4 970, and for single-parent families sharing a dwelling with a person other than a dependent child, at any time during the year, $3 210.

If applicable, in addition to being reduced in relation to the spouses' total income, it will also be reduced by 7 percent of the designated dependent child's total income in excess of $5 280, excluding social aid benefits. Regardless of the designated dependent child's income, the tax reduction will be decreased by 45 percent of social aid benefits received by the dependent child.

Administration

The tax reduction will be calculated as part of the tax return. In addition, the form covering individual at-source tax deductions (TPD-1) will be amended to take this tax reduction into account when at-source deductions are calculated. Thus, beginning in 1988, eligible taxpayers will benefit from the tax reduction, which will be reflected directly in pay cheques.

The APPORT program

Eligibility criteria

Wage earners who, during the year, had at least one dependent child under 21, or 21 or over and engaged in full-time studies, will benefit from the APPORT program. To this end, eligible families will be those in which at least one spouse earns income from an office or employment, or business income. Moreover, one of the spouses or the head of a single-parent family must be living in Québec when the application for assistance under the APPORT program is filed. Families whose property is valued in excess of a set amount will not be eligible for the program. The market value of all household property, excluding automobiles for personal use and domestic furniture and effects in the usual residence, cannot exceed $30 000, or, where the household owns and lives in a home, $75 000.

Rules for calculation

Benefits paid under the APPORT program will be determined by the family situation of eligible wage earners, and household income.

They will be based on a threshold established under the program, from which will be deducted an amount representing ordinary needs covered by the social aid program, a portion of household employment income and all other income.

In 1988, the family threshold determined by family situation will be established on the basis of the amounts indicated in the following table, from which will be deducted federal and provincial family allowances and the federal child tax credit, attributable each year to one child or two children, as the case may be.

AMOUNTS USED TO ESTABLISH FAMILY THRESHOLDS IN 1988
(in dollars)

	One dependent child	More than one dependent child
Two-parent family	9 636	11 133
Single-parent family not sharing a housing unit	7 699	9 197
Single-parent family sharing a housing unit[1]	6 864	8 361

[1] The amounts used to establish the family thresholds for single-parent families sharing a housing unit have been set at $6 864 and $8 361; compared to other families, they should be $5 841 and $7 338. The two latter amounts will be adjusted to the cost of living up to the amounts used to establish the family thresholds in 1988. Meanwhile, the thresholds set for 1988 will have to be used.

For the purpose of the APPORT program, the applicant and the person with whom he or she has been living in a de facto union for at least one year as at December 31 of the year in question will also be deemed a two-parent family. Moreover, such a person's dependent child will be assumed to be a dependent of the applicant.

The number of dependent children and their income will determine the family threshold used with respect to the number of dependent children. When at least two children each have total incomes below $5 280, the family threshold established for more than one dependent child will be used. In all other cases, the family threshold established for one dependent child will apply.

For the purpose of calculating benefits, the spouses' employment income will include income from an office or employment, and business income. Income from an office or employment will be reduced notably by the general employment deduction claimed on income tax and contributions to the Québec Pension Plan and unemployment insurance. Business income to be included is that established for income tax purposes, without taking into account notably capital cost allowance, but including business losses. Child care expenses claimed for tax purposes will also be deducted from such income. In this way, under the APPORT program, families may choose between the availability allowance and the child care expense deduction for tax purposes, depending upon which is the most advantageous.

The benefit payable will be reduced according to employment income. A benefit reduction of 55 percent will apply to the portion of employment income below the family threshold established; for that portion exceeding the threshold, the reduction will be 42 percent.

Other income which will reduce benefits to be paid includes:

- social aid benefits received by the dependent child or dependent children whom the applicant has designated in order to qualify for the APPORT program;
- the amount of spouses' total income, except social aid benefits and federal family allowances received, in excess of work income, as defined earlier;
- total income in excess of $5 280, other than social aid benefits, received by the dependent child whom the applicant has designated in order to qualify for the APPORT program.

To this end, total income will be determined exactly as for the purpose of the tax reduction for low-income families, including notably work income as defined earlier, income from property and workmen's compensation.

Payment of monthly instalments

Annual benefits will be paid in monthly instalments, and calculated at the beginning of the period of eligibility, on the basis of estimated annual income. To determine the monthly instalment, account will be taken of the income for the month in question or the portion of estimated annual income attributable to the month, whichever is higher. As business income is determined on an annual basis, monthly instalments will be based on the preceding year's income.

Monthly instalments will be reconciled when the beneficiary files an income tax return.

Administration

Wage earners wishing to benefit from the program must apply at a Travail-Québec centre of the ministère de la Main-d'oeuvre et de la Sécurité du revenu. Once their eligibility has been established on the basis of information provided on their assets and their family and financial situation, beneficiaries must update such information every month, if need be, to obtain a monthly instalment calculated by the Travail-Québec centre.

At the end of the year, beneficiaries will have to complete a tax return; the ministère du Revenu will reconcile instalments received during the year at that time. For the purposes of the reconciliation, income earned throughout the year and information provided by the ministère de la Main-d'oeuvre et de la Sécurité du revenu will be taken into account. Benefits paid under the program will be readily determined using benefit tables provided for applicants. As is the case when the APPORT application is submitted, the value of the family's property must not exceed the allowable limits. The reconciliation may lead to the repayment of overly high instalments or a claim for insufficient instalments.

Indexation of the tax reduction and the APPORT program

Amounts used to establish the tax reduction and benefits under the APPORT program have been set for the 1988 taxation year. In subsequent years, they will be indexed at the same rates used with respect to the taxation system.

Ancillary changes in the calculation of the consumption tax credit and the property tax refund

Changes will be made to simplify and standardize calculation of the consumption tax credit, the property tax refund and the new tax reduction for low-income families. Notably, the additional deduction granted to reflect the increase in the zero tax threshold for the purpose of the tax reduction will be added to current deductions used to calculate the consumption tax credit and the property tax refund.

These changes will also apply starting with the 1988 taxation year.

Assistance for certain specific groups

Supplementary estimates of $36 700 000 for 1987-1988 will be tabled in the National Assembly to provide additional assistance for certain specific groups.

Support for young people

The ministère de la Santé et des Services sociaux will receive additional estimates of $1 000 000 to increase its assistance to youth centres. Further estimates allocated to the contingency fund of the ministère des Finances will enable the ministère du Loisir, de la Chasse et de la Pêche to improve sports and recreation facilities for Québec's young people ($1 500 000), and to enable various departments and agencies to promote student employment ($3 000 000).

Assistance to the disadvantaged

The homeless

To mark the International Year of Shelter for the Homeless, the government has set up an interdepartmental coordination committee to prepare an action plan for Québec's participation in this event. Most of the planned activities can be financed within budgets already allocated to certain departments and agencies for 1987-1988. These departments and agencies are:

— the ministère des Affaires municipales;
— the ministère des Communautés culturelles et de l'Immigration;
— the ministère de l'Éducation;
— the ministère de la Main-d'oeuvre et de la Sécurité du revenu;
— the ministère des Relations internationales;
— the Secrétariat à la Condition féminine;
— the Secrétariat à la Jeunesse; and
— the Société d'habitation du Québec.

The Société d'habitation du Québec will work with the Canada Mortgage and Housing Corporation and invest $13 000 000 in shelter facilities for the homeless. This amount will enable non-profit organizations to set up facilities providing approximately 1 000 extra beds. Currently, this network has a capacity of 1 300 beds. Assistance to these agencies will be provided in the form of an interest rebate, so that they will be paying only 2 percent on the cost of their projects. This commitment will require no supplementary estimates in 1987-1988, to the extent that no interest rebate is refundable this year.

Furthermore, additional estimates of $ 2 500 000 will be used to set up a special fund for the International Year of Shelter for the Homeless. The Société d'habitation du Québec will administer this fund. It will provide direct support as required to agencies making services available to the homeless; this support will be comprised mainly of purchases of supplies and equipment.

Battered women

Supplementary estimates of $3 000 000 will be tabled in the National Assembly for the ministère de la Santé et des Services sociaux to enhance support for agencies providing assistance to battered women.

Handicapped people

Supplementary estimates of $7 100 000 will be tabled in the National Assembly for the ministère de la Santé et des Services sociaux in order to provide assistance to persons with mental or physical handicaps.

An amount of $3 600 000 from these supplementary estimates will be allocated to the Office des personnes handicapées du Québec, and the remaining $3 500 000 will be added to the budget for mental illness.

Victims of drug addiction

Supplementary estimates of $2 600 000 will be tabled in the National Assembly for the ministère de la Santé et des Services sociaux to provide services to victims of drug addiction. The funds will be used mainly to set up rehabilitation facilities, but also for prevention and research.

Elderly persons living in institutions

Supplementary estimates of $6 000 000 will be tabled in the National Assembly for the ministère de la Santé et des Services sociaux to increase the budgets allocated to accommodation centres and extended care hospital centres. The kind of care required by persons accommodated in these institutions is becoming more and more costly since, for some years, only persons with significant loss of automony have been admitted.

Specific health and social service projects

Additional funds of $10 000 000 will be allocated to the contingency fund of the ministère des Finances and made available during the year for specific health and social service projects.

Reduction of the retail sales tax on automobile insurance premiums

The 9 percent retail sales tax on automobile insurance premiums, except for amounts paid to the Régie de l'assurance automobile du Québec, will be reduced to 5 percent.

The 5 percent rate will apply to automobile insurance premiums paid after midnight of the evening of the Budget Speech.

This reduction will reduce the tax burden by $50 000 000 for a full year, and will cost $45 000 000 in fiscal 1987-1988.

Rationalization and simplification of the tax system

Change in the tax on alcoholic beverages

Reduction of the retailers' duty

At present, Québec's taxation of alcoholic beverages distinguishes between two kinds of sales: sales for consumption in establishments as defined in the Meals and Hotels Tax Act and sales for consumption outside such establishments. Sales of alcoholic beverages in the latter case are subject to the 9 percent provincial sales tax. A retailer who buys alcoholic beverages for resale and consumption in his establishment must pay a retailers' duty of 13.4 percent. In addition, the consumer who buys alcoholic beverages in an establishment is subject to the 10 percent meals and hotels tax.

To simplify the tax structure for alcoholic beverages, beginning at midnight the evening of the Budget Speech, the rate applicable to the retailers' duty will drop from 13.4 percent to 9 percent.

Consequently, the retailers' duty will be at the same rate as the provincial sales tax. However, the retailers' duty will remain at 13.4 percent for tavern licence holders, whose beer sales are exempt from the 10 percent meals and hotels tax.

This measure will reduce revenues from the retailers' duty and the meals and hotels tax by $26 000 000 in 1987-1988.

Taxation of cider-based alcoholic beverages

Currently, the retail sales tax and duties applying to retailers of alcoholic beverages do not apply to purchases of cider. Recently, modifications were made to the rules for obtaining a cider-manufacturing licence to enable cider manufacturers to produce other cider-based alcoholic beverages, especially of the "cooler" type.

In order to make certain that "cooler"-type alcoholic beverages receive tax treatment identical to that of other alcoholic beverages, modifications will be made to the duties levied on retailers of alcoholic beverages and to the retail sales tax so that the cider exemption applies only to weak and strong ciders, and excludes alcoholic cider-based beverages such as "coolers".

This measure will apply to the purchases of such products as of midnight the evening of the Budget Speech.

Home-made alcoholic beverages sold commercially

The Act respecting the Société des alcools du Québec has been amended in order to permit home-marking of alcoholic beverages for commecial purposes.

In order to ensure that the taxation of home-made alcoholic beverages is equivalent to that of other alcoholic beverages sold in commercial establishments, modifications will be made to the duties levied on retailers of alcoholic beverages. These modifications will result in the retailers' duty being levied on the value of home-made beverages, as determined periodically by the Minister of Revenue. The duty will be payable when home-made beverages are sold. With respect to the sales of home-brewed beer, the value on which the duty will be levied will equal that in effect for beer made by breweries, as determined by the Minister of Revenue; currently, this value is $1.967 per litre of beer.

This measure will apply to home-made alcoholic beverages sold in establishments as of midnight the evening of the Budget Speech.

Reform of pari-mutuel

For several years now, the horse-racing industry in Québec has been dealing with serious structural problems. Attendance at racetracks has fallen by 40 percent since 1980, with a proportional reduction in government revenues from this source. The situation is especially worrisome in the Montréal region. An industry employing 10 000 people is threatened and, with the release of a task force report, the government has decided to act.

First, all governmnent bodies involved in this sector will be grouped in a single agency as soon as possible. Second, a new pari-mutuel tax structure will become effective as of midnight tonight. The structure will be simpler because it will apply a single rate to each category of racetrack, regardless of the type of wager. This will also give racetracks more flexibility in programming their activities.

TAX RATES APPLICABLE TO PARI-MUTUEL
(as a percentage of wager)

	Old rates	New rates
Racetracks[1]		
☐ large		
— win wager	8.0	
— combination wager	12.5	
— exotic wager	12.5	
weighted average	10.5	10.5
☐ medium		
— win wager	6.3	
— combination wager	10.7	
— exotic wager	10.7	
weighted average	9.5	9.5
☐ small		
— win wager	5.5	
— combination wager	10.0	
— exotic wager	10.0	
weighted average	8.6	8.6
Weighted averages, total	**10.3**	**10.3**

[1] Distributed according to the average volume wagered per card, in large racetracks ($250 000 or over), medium racetracks ($125 000 to $250 000) and small racetracks ($125 000 or under).

Third, the percentage of duties on wagers that is returned to the industry is currently set at 2.2 percent of the highest volume of wagers observed over the past two preceding years. This represented $7 100 000 for the industry. This amount will be increased to $13 100 000 in 1987-1988. Subsequently, it will be indexed to the rate of inflation, and will be paid annually, until 1992-1993, to the new racing agency which will prepare a management plan for the government's approval. From this amount, it will earmark $5 000 000 annually, up to $25 000 000 over five years, for a special assistance program for racetrack facilities and investment. Until the government sets up this new agency, and in order to avoid unduly delaying these projects, the government will allocate, this year, that part of the subsidy relating to 1987-1988. The balance of the amounts earmarked for the agency will be distributed to assist local breeders and owners, and to improve purses offered at regular events in Québec racetracks. This will enable the industry to replace worn-out equipment, improve its product, boost attendance and, consequently, safeguard current levels of employment.

Finally, the overall levy rate (24.6 %), which includes the federal tax (0.8 %), the average racetrack commissions rate (13.5 %) and the gross provincial tax (10.3 %), appears too high. To bring about a gradual reduction in the levy rate and to revitalize demand, the government is ready to take extra steps and participate in a joint effort with the racetracks to simultaneously reduce the tax by two thirds of a percentage point for each reduction of one percentage point in the racetrack commissions rate, to a maximum reduction in the tax of two percentage points. Since the amount wagered is very sensitive to the levy rate, this package of measures could generate, in the medium term, revenue for the industry and the government equivalent to levels of the early 1980s.

EXAMPLE OF A JOINT INITIATIVE TO SIMULTANEOUSLY REDUCE THE GROSS TAX BY TWO THIRDS OF A PERCENTAGE POINT FOR EACH REDUCTION OF ONE PERCENTAGE POINT IN THE RACETRACK'S COMMISSION RATE, UP TO A REDUCTION OF TWO POINTS IN THE PARI-MUTUEL TAX

	Existing structure	Proposed joint reduction in racetrack commission rate and gross tax rate	Difference (in percentage points)
Federal government	0.8 %	0.8 %	—
Average racetrack commission rate	13.5 %	10.5 %	– 3.0
Average gross tax rate	10.3 %	8.3 %	– 2.0
Total levy	24.6 %	19.6 %	– 5.0

EXAMPLE OF THE IMPACT OF A REDUCTION OF 3 PERCENTAGE POINTS IN THE AVERAGE COMMISSION RATE AND OF 2 PERCENTAGE POINTS IN THE GROSS TAX RATE, CONCURRENTLY WITH THE INCREASE IN THE ASSISTANCE TO THE INDUSTRY[1]

(in millions of dollars)

					Levies by the Québec government		
Year	Standardbred wagers	Total levies (19.6 %)	Federal government (0.8 %)	Racetrack commission 10.5 %	Gross tax 8.3 %	Support for the industry	Net tax
1	310.9	60.9	2.5	32.6	25.8	13.1	12.7
2	325.2	63.7	2.6	34.1	27.0	13.6	13.4
3	339.6	66.6	2.7	35.7	28.2	14.1	14.0
4	368.3	72.2	2.9	38.7	30.6	14.7	15.9
5	396.9	77.8	3.2	41.7	32.9	15.3	17.6
6	396.9	77.8	3.2	41.7	32.9	9.8	23.1

[1] Assumptions: Racetrack support program of $5 000 000 over five years (maximum $25 000 000); support programs for owner-breeders and regular events (overnight purses) maintained and indexed for inflation beyond the planned five-year period.

Improvement and simplification of tax measures applying to pensioners

Tax benefits for semi-retired persons

Currently, persons aged 65 or over can deduct $2 200 under the age exemption. Such persons, as well as those considered to be retired, can also deduct $1 000 from their interest and dividend income and another $1 000 from their retirement income. However, this exemption and these deductions have been reduced for working pensioners, resulting in a difficult situation for low-income pensioners who continue working, on the one hand, and making the calculation very complicated, on the other.

In order to improve the financial position of semi-retired persons earning work income and to simplify the rules for this exemption and these deductions, only the portion of employment and business income exceeding $10 000 will reduce this exemption and these deductions. Each dollar in excess of this amount will reduce the total of the exemption and deductions by a dollar. Moreover, the minimum deduction for the interest and dividend income deduction and the retirement income deduction will remain at $500 each. Taxpayers now entitled to these deductions will continue to be entitled to them. This measure will apply beginning in the 1987 taxation year.

The deduction will be obtained by one calculation instead of the three currently necessary. A simplified calculation mechanism will be introduced to ensure that amounts earned as employment and business income do not, at the same time, reduce the exemption and the deductions.

This exemption and these deductions for the elderly will thus be fully deductible up to $10 000 of employment or business income, whereas at present, the first dollar earned reduces this exemption or these deductions by an equivalent amount.

Making these rules more flexible will, therefore, enable many semi-retired taxpayers to enjoy substantial reductions in income tax. A retired couple both of whom are 65 and whose total income is $14 244 including employment and business income of $5 000, will be entitled to a tax reduction of $234, or $529 if their employment and business income is $10 000.

TAX REDUCTION FOR SEMI-RETIRED PERSONS

Work income	Tax reduction	
	($)	(%)
3 000	—	—
4 000	113	100
5 000	234	100
6 000	337	100
8 000	484	87
10 000	529	67
14 000	—	—
16 000	—	—

In addition to simplifying the calculation of these deductions, these measures will be of benefit to 42 000 semi-retired persons and reduce their tax burden by $11 000 000 for a full taxation year.

Employer contribution to the Québec Pension Plan

At present, business firms employing persons 60 to 64 who draw a retirement pension from the Régie des rentes du Québec must pay the employer contribution to the plan for these persons until they reach age 65.

A recent modification to the Canada Pension Plan, applicable beginning January 1, 1987, allows persons 60 to 64 to claim early retirement. This modification also provides that, as soon as such an employee receives a retirement pension, his employer is no longer required to contribute on his behalf to this plan.

To ensure increased coordination among the various retirement plans in Canada, and to simplify the procedure, Québec employers will not have to pay the employer contribution for employees aged 60 or over who are drawing a retirement pension from the Régie des rentes du Québec or an equivalent plan. This measure will apply as of January 1, 1987 and employers may apply for reimbursement of contributions paid since the beginning of the year.

Property tax refund

For eligible persons aged 60 or over, the present property tax refund allows an increase in the property tax refund of $100 over the refund for which these persons are otherwise eligible. This increased refund has been introduced to provide assistance for elderly persons with low incomes. However, under current rules, in some cases, the increased refund must be applied for by the person entitled to it rather than by his spouse.

In order to simplify the mechanism for applying for this refund, technical modifications will be made to permit an individual who is not eligible for the increased refund to apply for the increased refund to which his spouse would have been entitled had he or she applied for it himself or herself. These technical modifications will come into effect as of the 1987 taxation year.

Measures to promote the enhancement of the environment

Change to and simplification of the tax on gasoline

At present, the amount of the fuel tax per litre of gasoline depends on the category of gasoline: regular leaded, regular unleaded and premium. Moreover, the tax for each category of gasoline is reduced in certain regions of Québec.

In order to remove the tax incentive for the use of leaded gasoline, which is harmful to the environment, and to simplify the application of the fuel tax, henceforth, the gasoline tax will be identical for all three categories of gasoline, and will correspond to the amount currently applicable to regular unleaded gasoline. Furthermore, the reductions in the gasoline tax for Québec's various regions will also be identical for the three categories of gasoline in each region. Finally, the financial assistance to gasoline retailers located in areas bordering on the designated regions will also be modified accordingly.

SIMPLIFICATION OF THE TAX ON GASOLINE (cents per litre)

	Specific tax before reduction	Reduction	
		Peripheral regions	Specific regions
Current system			
Gasoline			
☐ regular leaded	13.65	4.55	2.28
☐ regular unleaded	14.40	4.80	2.40
☐ premium	14.70	4.90	2.45
New system			
Gasoline	14.40	4.80	2.40

SIMPLIFIED FINANCIAL ASSISTANCE FORMULA FOR GASOLINE RETAILERS LOCATED IN AREAS BORDERING ON DESIGNATED REGIONS LEVEL OF ASSISTANCE (cents per litre)

	Distance from point of contact				
	Border regions and regions bordering on peripheral regions				Regions bordering on specific regions
	0 to less than 5 km	5 to less than 10 km	10 to less than 15 km	15 to less than 20 km	0 to less than 10 km
Current system					
Gasoline					
☐ regular leaded	4.55	3.05	1.67	0.17	1.14
☐ regular unleaded	4.80	3.22	1.76	0.18	1.20
☐ premium	4.90	3.29	1.80	0.19	1.22
New system					
Gasoline	4.80	3.22	1.76	0.18	1.20

New tax amounts and financial assistance to gasoline retailers located in areas bordering on designated regions will apply to gasoline deliveries to retailers as of midnight the evening of the Budget Speech.

The financial impact of this simplification amounts to some $10 000 000 more for fiscal 1987-1988.

Assistance for agriculture

Additional estimates of $1 000 000 will be entered in the ministère des Finances contingency fund to increase research on non-polluting pesticides and methods of counteracting the effects of acid rain on sugar bushes.

In addition, estimates of $1 000 000 will be allocated to the ministère des Finances contingency fund to assist tobacco growers to turn to other crops.

The arts

Donations to artistic organizations

Currently, donations to certain registered agencies are deductible in calculating the donor's taxable income. To be recognized as registered agencies, non-profit organizations must meet certain criteria, and must apply for this status to the ministère du Revenu. Many organizations whose goal is to solicit funds to promote artistic production have been recognized as registered agencies. For others, it is at present very difficult to obtain such recognition.

In order to provide additional support for artistic production and to encourage the development of organizations supporting such production, amendments will be made to tax legislation and regulations so that henceforth, donations to artistic organizations recognized by the Minister of Cultural Affairs and the Minister of Revenue will be deductible.

Artistic association dues

Over the years, artists have formed various associations grouping together persons engaging in artistic activities. Certain employers hiring artists require them to be members of one of these associations. However, under the current taxation system, the annual dues for membership in these associations are not deductible in calculating employment income.

To take this situation, specific to artists, into account and to encourage artists to participate in their associations, beginning in the 1987 taxation year, tax legislation and regulations will be amended so that annual dues paid to the following associations will be deductible in calculating the income from employment or an office of those paying them, if they are not reimbursed for such payments:

Académie canadienne-française
Alliance of Canadian Cinema, Television and Radio Artists
Association «Les Photographes professionnels du Québec»
Association des décorateurs ensembliers
Association des designers industriels
Association des illustrateurs et illustratrices du Québec
Association des musiciens de Québec
Association des professionnels des arts de la scène du Québec
Association des réalisateurs et réalisatrices du Québec
Association des traducteurs littéraires du Canada
Atelier de dramaturgie de Montréal
Canadian Actors' Equity Association
Centre d'essai des auteurs dramatiques
Centre de musique canadienne
Conseil de la sculpture du Québec
Conseil des artistes peintres du Québec
Conseil des arts textiles du Québec
Conseil québécois de l'estampe

Conseil québécois du théâtre
Corporation des artisans de Québec
Corporation des métiers d'art du Saguenay — Lac St-Jean
Guilde des musiciens de Montréal
Métiers d'art du Québec à Montréal
Regroupement des musiciens de Montréal
Regroupement des professionnels de la danse du Québec
Société des auteurs, recherchistes, documentalistes et compositeurs
Société des graphistes
Société professionnelle des auteurs et compositeurs du Québec
Union des artistes
Union des écrivains québécois

This list of associations can be amended by the Minister of Revenue on the recommendation of the Minister of Cultural Affairs.

Assistance for the arts

Additional estimates of $2 000 000 will also be allocated for the private financing support fund, which has just been announced be the Minister of Cultural Affairs. The government will use this fund to finance projects of agencies working in the arts to the extent that they have received private sector support.

Administrative and technical measures

NSF cheques

In order to eliminate a practice which has become common among some taxpayers, henceforth, a fee will be charged for NSF cheques. This fee will have to be paid by taxpayers whose cheques are presented to the ministère du Revenu after the day of the Budget Speech and refused by a financial institution. The fee is set at $15 initially, and may be revised according to the costs incurred by the government as a result of NSF cheques.

Hypothec cancellation fees

In certain cases, the ministère du Revenu registers legal hypothecs on buildings belonging to debtors.

When the debt is paid off and the debtor seeks a discharge from the ministère du Revenu, the Minister must file a cancellation certificate with the registry office. This certificate states that the hypothec has been discharged.

This procedure involves costs, which is why, from now on, the ministère du Revenu will charge the debtor a fee of $90, which may be changed, for filing the documents concerning the cancellation of a legal hypothec with the registry office.

Calculation-free income tax return

The ministère du Revenu now offers certain taxpayers the possibility of filing a calculation-free income tax return. Taxpayers using this form do not know their outstanding tax balance before the ministère du Revenu issues a notice of assessment for them. Currently, interest charges apply to all amounts due after April 30.

Legislative amendments will be introduced to ensure that taxpayers filing such a return do not have to pay interest on their tax balance due for a reasonable period after receiving the notice of assessment from the ministère du Revenu. These amendments apply to calculation-free returns filed for the 1986 taxation year and after.

Simplification of the tax table

The personal income tax form enables taxpayers whose taxable income is $36 000 or less to calculate their taxes using a pre-determined tax table, without having to perform any detailed calculations. The current tax table indicates the amount to be paid, and is accurate to within a cent.

For the sake of simplicity, beginning with the 1987 taxation year, if the tax payable indicated in the table is not a multiple of a dollar, it will be rounded to the nearest multiple of a dollar; if it is equidistant from two consecutive multiples of a dollar, it will be rounded to the higher multiple. Other calculations may also be modified in the same manner, if modifying them results in simplifying the application of tax laws for taxpayers.

Fuel tax refund

At present, certain public carriers using buses are entitled to a refund of one third of the fuel tax they have paid. To be so entitled, the carrier must produce certain documents, including a copy of the certificate delivered by the ministère des Transports, the Commission des transports du Québec or the organization having entered into the transportation contract with the carrier, stating that the carrier's passenger fares have been, or will be, adjusted to reflect this refund.

In order to simplify this refund mechanism, this certification will no longer be necessary; the carrier's declaration will suffice. This measure will apply to any application for refund made after the day of the Budget Speech.

Small business deduction

Since 1981, Québec tax legislation has referred to the amount that a corporation can deduct annually under the federal Income Tax Act for the small business deduction. This reference had been considered necessary to ensure that only small businesses enjoyed lower rates because at the time, the notion of "cumulative deductions account" was used to determine whether a corporation could benefit from a lower taxation rate.

Since the above notion no longer applies, it is not necessary to refer to the federal tax legislation to determine a corporation's rate of taxation for the purposes of Québec taxes. Similar provisions to the federal tax measures will, henceforth, be integrated into Québec legislation and regulations. This amendment will make Québec's legislation in this area autonomous, thereby facilitating the auditing and collection of corporate taxes.

Land transfers between affiliated corporations

When land located in Québec is transferred to an assignee not residing in Canada, the latter must pay duties of 33 percent of the consideration. However, exemptions from duties are provided and apply, among others, to certain cases of land transfers within the same corporate group.

The criteria for the exemption will be extended to provide for other situations where land is transferred between corporations of the same group. This applies, notably, to land transfers between an assignor which is a subsidiary of a parent company and an assignee which is the subsidiary of a subsidiary of the same parent company or between an assignor which is a subsidiary of a subsidiary of a parent company and an assignee which is a subsidiary of this parent company.

This measure will apply to all land transfers carried out after the day of the Budget Speech.

Miscellaneous fiscal measures

Reduction in interest rate applicable to taxable benefits

Currently, an employee who obtains an interest-free or reduced-interest loan from his employer enjoys a taxable benefit. The same holds true, in certain circumstances, for a shareholder who borrows money from a corporation under similar terms.

The value of the taxable benefit to the person which must be included in calculating income is equal to the difference between the amount of interest calculated at a prescribed rate and the amount of interest paid by the person for the year. The interest rate to be used for calculating the taxable benefit usually depends on when the loan was negotiated. Currently, this rate is 11 percent for loans contracted after March 25, 1980. However, different rates may apply in certain cases.

This procedure differs from the method applicable under federal legislation, and gives rise to additional complications for employers and taxpayers. Furthermore, the federal Minister of Revenue adjusts the prescribed rate on a quarterly basis.

To simplify the application of the tax legislation for Quebecers and to more accurately reflect interest rate fluctuations, Québec's tax legislation and regulations will be standardized and generally aligned with federal legislation and regulations in this regard. The interest rate used to determine the value of a taxable benefit arising from an interest-free or reduced-interest loan will be the rate set each quarter by the Minister of Revenue, regardless of when the loan was obtained. This rate will be 8 percent, starting the day after the Budget Speech. However, the value of taxable benefits resulting from loans for which the applicable prescribed interest rate is presently less than 8 percent will continue to be calculated at such lower rate until the debt is paid off, or until such time as the interest rate is set once again, whichever occurs first.

Finally, Québec will standardize its tax legislation and regulations with federal legislation and regulations with respect to loans entered into to acquire a residence, and the rules concerning loans for reinstallation will be maintained and adjusted accordingly.

Relaxation of rules governing stock options

Many employers have entered into stock option agreements with their employees to encourage them to acquire an interest in their company. Generally, only half of any profits employees realize on the sale of shares acquired through the stock option agreement is taxable as employment income. In addition, the income from the sale of such shares is only taxable when the employee sells them, whether the company is public or private. This preferred tax treatment is applicable to stock options granted to employees under agreements reached after April 23, 1985.

Under the federal tax system, preferred tax treatment is also reserved for stock options granted to employees. However, the federal tax treatment is less advantageous than the treatment under Québec's tax system since, when an employee acquires a share of a public corporation, the employee must include the income from the exercise of the option at the time he exercises the option while, for Québec income tax, such income is only taxed when the employee sells his share.

Québec's tax system is thus more advantageous than the federal system in this regard. However, this preferred treatment is only applicable to employee stock option agreements reached after April 23, 1985. Those reached earlier are thus ineligible for this preferred tax treatment.

To simplify the rules for calculating the taxable benefit resulting from a stock option agreement reached with employees, the preferred tax treatment employees and employers currently enjoy will apply to stock options exercised after December 31, 1986, under such an agreement regardless of when the agreement was reached. The other rules concerning this preferred tax treatment will continue to apply.

This measure will apply to stock options exercised after December 31, 1986 under such agreements.

Deferment of tax benefits granted to IATA employees

To encourage international activities in Québec, tax exemptions have been granted for recognized international non-governmental organizations as well as for foreign employees of these organizations and their families. To date, two organizations have been recognized: the International Air Transportation Association (IATA), and the Airlines Worldwide Telecommunications and Information Services (AWTIS).

The International Air Transportation Association requires time to adjust to the new tax rules. Accordingly, and further to this association's request to this effect, the tax exemptions granted to its foreign employees and members of their families will, therefore, only apply starting January 1, 1988.

Abolition of the $2 tax on the purchase of blank video cassettes

Currently, anyone purchasing a blank video cassette which is less than 19 mm wide must pay an additional tax of $2 over and above the retail sales tax.

To eliminate the negative effects of this tax, it will be abolished for any blank video cassettes purchased as of midnight the evening of the Budget Speech.

This measure represents a reduction in the tax burden on consumers of some $4 000 000 for fiscal 1987-1988.

Exemption from sales tax for children's car seats

For their own protection, young children in motor vehicles ride in special children's car seats or infant seats.

To reduce the cost of such safety devices, children's car seats and infant seats meeting Canadian passenger vehicle safety standards and purchased after midnight of the evening of the Budget Speech will be exempt from the retail sales tax.

This measure will save consumers a total of $500 000 per year.

Exemption from sales tax for "talking books"

At present, the sales tax does not apply to purchases of printed books and periodicals. However, this exemption does not cover "talking books", which are generally designed for the visually handicapped.

To enable the visually handicapped to enjoy the exemption currently applied to printed books and periodicals, it will be extended to "talking books" and their media purchased after midnight of the evening of the Budget Speech, provided they are purchased for a visually handicapped person.

Sugar bush operators recognized as farmers

At present, farmers are exempted from paying the 9 percent retail sales tax on certain goods used for farm purposes. In addition, farmers whose chief occupation is agriculture are exempted from the fuel tax for fuel used in farm machinery, or are entitled to a refund if they have paid the tax.

For the purposes of such exemptions and refunds, starting midnight of the evening of the Budget Speech, agricultural activity will include the operation of a sugar bush, and goods purchased thereafter will be eligible for exemption or refund, as the case may be. Sugar bush operators will therefore enjoy the same tax benefits as other farmers with respect to these two consumption taxes.

Exemption for conditioning materials

Conditioning materials, that is, those which are rapidly consumed or dissipated in providing movable goods with specific qualities, for instance, the sandpaper used in a sander to manufacture chairs, are currently exempt from the retail sales tax when the movable property is intended for sale.

This exemption will be extended to conditioning materials purchased after midnight of the evening of the Budget Speech when such materials are used to provide production material exempt from the retail sales tax with specific qualities.

Extension of the retail sales tax refund

Currently, a person who has paid the Québec retail sales tax on an item is generally entitled to a refund of the portion of such tax attributable to the amount of the federal tax refunded to him.

To improve the existing tax system, the refund will be extended to apply to persons who receive a refund of the federal tax even if the Québec retail sales tax was paid by a person other than the recipient of the refund of the federal tax. This refund may be claimed in regard to a refund of federal tax made after the day of the Budget Speech, subject to certain administrative conditions.

Concordance with federal fiscal legislation and regulations

Accelerated remittance of at-source deductions

In his 1987-1988 Budget Speech, the federal Minister of Finance announced that, starting January 1, 1988, employers who make monthly remittances of at least $15 000 will have to remit payroll deductions, that is, income tax and contributions to the Canada Pension Plan and unemployment insurance, twice a month. Amounts deducted from employees' pay during the first 15 days of the month will have to be remitted no later than the 25th of the month, while deductions during the remainder of the month will have to be remitted no later than the 10th of the following month.

In order to continue aligning the tax rules governing remittance of at-source deductions, Québec's tax legislation and regulations will be adapted to and aligned with those of the federal government with respect to employer at-source deductions, thus improving Québec's income tax and contributions collection system. These measures will become effective on the same dates as for federal income tax purposes.

Starting in January 1988, employers who have to make remittances twice monthly to Revenue Canada under the new rules will also have to make remittance of at-source deductions for Québec income tax and for employer and employee contributions to the Québec Pension Plan and to the health services fund twice a month. Amounts withheld from employees' pay during the first 15 days of the month will have to be remitted no later than the 25th of the month, while deductions during the remainder of the month will have to be remitted no later than the 10th of the following month. The calculation mechanism for these deductions will be similar to the mechanism applicable for federal deductions and a penalty will be introduced for employers who fail to comply with the new rule.

This measure will have a positive impact on the government's cash position. For fiscal 1987-1988, the gain will amount to some $5 000 000, and for fiscal 1988-1989, it will total $27 000 000.

On the other hand, the federal Minister of Finance also announced various measures designed to improve the collection of these remittances. First, remittances of at-source deductions due after 1987 must reach a Revenue Canada office or a Canadian financial institution no later than the due date. Second, for the purposes of the Income Tax Act, anything sent by mail after 1987 will be deemed to have been received on the date it is mailed only if it has been mailed first class in Canada or sent by an equivalent means. Finally, the penalty for inadvertently late or insufficient remittance of at-source deductions will only apply to missing or late amounts in excess of $500.

The ministère du Revenu du Québec will study these last three administrative measures and decisions will be announced by the end of the year.

Other measures in the 1987-1988 federal Budget Speech

On February 18, 1987, the federal Minister of Finance tabled a Notice of Ways and Means Motion in the House of Commons to amend the Income Tax Act. Québec's tax legislation and regulations will be amended to bring the two tax systems into line. However, Québec will not pass concordance measures until all federal legislation arising from this Notice of Ways and Means Motion is passed. Such measures will become effective on the same dates as for federal income tax purposes.

The concordance measures are shown in the list below. The measure concerning the accelerated remittance of at-source deductions is discussed in the preceding section.

However some of the measures announced by the federal government have not been adopted because Québec's legislation does not contain corresponding measures. Such is the case for the measure concerning the definition of a cooperative corporation (BR 6)[*] the sales tax credit (BR 8), foreign property acquired by certain trusts (BR 14), the tax on taxable dividends received by private corporations (BR 15) and the surtax applicable to individuals (BR 22). Finally, the measure concerning communication of information (BR 17) has not been acted upon, since Québec's tax system is satisfactory in this regard.

Decisions on the foreign tax credit (BR 21) and the administrative measures applicable to the penalty for late or deficient remittance (BR 2) and the date of receipt of remittances (BR 3) will be announced by the end of the year.

Concordance measures

Québec's tax legislation and regulations will be amended to include, notably, the federal measures, adapted on the basis of their general principles, concerning:

1. accelerated remittance of at-source deductions (BR 1);[**]
2. amendments to the rules on accrued investment income (BR 4);
3. the carry-over of the deduction of patronage dividends paid to certain clients (BR 5);
4. tax instalments relative to unclaimed income, the instalment for Québec income tax purposes being set at 15 percent (BR 7);

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[*] The references in parentheses indicate the number of the budget resolution corresponding to the federal Notice of Ways and Means Motion of February 18, 1987.

[**] Accelerated remittance of at-source deductions is discussed more fully in the preceding section.

5. the estimate of the value of the benefit arising from a forgiveness of a debt owed by an employee or a shareholder (BR 9);
6. the provisions concerning successor corporations (BR 10);
7. the exclusion from the income of deposit insurance corporations of any assistance received and repaid and any forgiveness of debt included in revenue (BR 11);
8. the deferment of tax payable by deposit insurance corporations (BR 12);
9. the exemption of pension fund trusts (BR 13 in part);
10. the exclusion of certain prizes from the income of the recipient (BR 16);
11. the use of confidential tax information constituting an offence (BR 18);
12. the non-application of attribution rules to assignments of benefits of certain pension plans (BR 19);
13. the eligibility for deduction of contributions paid to certain pension plans (BR 20);
14. the eligibility for deduction of the cost of an income interest in certain trusts (BR 23);
15. the determination of the cost of a share obtained in a share-for-share exchange under certain circumstances (BR 24); and
16. the instalment interest offset (BR 25).

Anti-avoidance measures

On January 15, 1987, the federal Minister of Finance issued a release (No. 87-09)*** containing draft legislation to limit transfers of losses and other deductions between unrelated taxpayers.

Québec's tax legislation and regulations will be aligned with the measures announced in this draft legislation and with any technical amendments which may be added prior to the legislation being passed. However, Québec will not pass concordance measures until all federal legislation arising from this release is passed. Such measures will become effective on the same dates as for federal income tax purposes.

3. SUMMARY OF THE FINANCIAL IMPACT OF THE FISCAL AND BUDGETARY MEASURES

*** Federal Department of Finance release number.

FINANCIAL IMPACT OF THE FISCAL MEASURES OF THE 1987-1988 BUDGET SPEECH (in millions of dollars)

	Financial impact on the Government of Québec		
	1987-1988	1988-1989	1989-1990
1. MEASURES TO PROMOTE JOB CREATION AND ECONOMIC DEVELOPMENT			
☐ Improvements to taxation of R&D	-20	-51	-95
☐ Tax adjustments related to the capitalization of business firms	n	n	n
☐ Subtotal	- 20	- 51	- 95
2. MEASURES TO PROMOTE SOCIAL JUSTICE AND IMPROVE THE TAX SYSTEM			
☐ Improving the tax system as it affects families with children			
• Tax reduction for low and middle-income families	- 22	- 95	- 173
• Non-recapture of family allowances with respect to the third child	- 3	- 34	- 24
• Modification of the availibility allowance	0	48	48
• Ancillary changes and impact on federal transfers	2	9	4
• Subtotal — Families with children	- 23	- 73	- 144
☐ Reduction of the retail sales tax on automobile insurance premiums	- 45	- 53	- 55
☐ Rationalization and simplification of the tax syste			
• Change in tax on alcoholic beverages	- 26	- 29	- 30
• Reform of pari-mutuel	0	2	3
• Improvement and simplification of tax measures applying to pensioners	0	- 11	- 11
• Measures to promote the enhancement of the environment	10	12	12
• Administrative and technical measures	n	n	n
• Subtotal — Rationalization	- 16	- 27	- 26
☐ Miscellaneous fiscal measures	- 4	- 5	- 5
☐ Concordance with federal fiscal legislation and regulations	0	- 35	35
☐ Subtotal	- 88	- 192	- 196
TOTAL	**- 108**	**- 242**	**- 291**

N.B.: For taxpayers, a (-) sign indicates a reduction in the tax burden. Because of rounding, figures may not add up to the totals shown.

n: less than $1 million.

FINANCIAL IMPACT OF THE BUDGETARY MEASURES OF THE 1987-1988 BUDGET SPEECH
(in millions of dollars)

	Financial impact on the Government of Québec		
	1987-1988	1988-1989	1989-1990
1. MEASURES TO PROMOTE JOB CREATION AND ECONOMIC DEVELOPMENT			
☐ Improvements to university funding	25	30	20
☐ Increase in public sector investments			
– Investments in highway safety	60	70	70
– Capital investment in the health sector[1]	5	3	3
☐ Assistance for Québec's regions			
– Regional Development Fund	10	—	—
– Other assistance for Québec's regions	7	—	—
☐ Subtotal	106	103	93
2. MEASURES TO PROMOTE SOCIAL JUSTICE AND IMPROVE THE TAX SYSTEM			
☐ Improving the tax system as it affects families with children			
– New assistance program for low-income working families[2]	17	48	48
– Additional assistance to day care centres	8	9	9
☐ Assistance for certain specific groups			
– Support for young people	6	—	—
– Assistance to the disavantaged	21	26	26
– Specific health and social service projets	10	—	—
☐ Rationalization and simplification of the tax system			
– Reform of pari-mutuel	6	7	7
– Measures to promote the enhancement of the environment	2	—	—
– The arts	2	2	2
☐ Concordance with federal fiscal legislation and regulations	– 5	– 27	– 29
☐ Subtotal	67	64	63
TOTAL	173	167	156

N.B.: Positive figures indicate an increase in budgetary expenditure. Because of rounding, figures may not add up to the totals shown.

[1] These amounts include $5 000 000 in supplementary estimates allocated for health sector operating expenditures in the Outaouais region in 1987-1988.

[2] This estimate takes into account the gradual abolition of the work income supplement.

APPENDIX B

Medium-term Outlook for the Québec Government's Financial Position

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Medium-term economic outlook 3

Medium-term financial framework 4

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- Own-source revenue 5
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Conclusion 13

Introduction

A multi-year financial framework is an essential management tool for a government, although the results are very sensitive to alternative hypotheses concerning, among other things, economic growth, changes in consumer prices and interest rates.

This appendix briefly reviews the main economic trends underlying the medium-term outlook for the Québec government's financial position, and then forecasts revenue, expenditure and the financial framework for the period 1987-1988 to 1989-1990.

Medium-term economic outlook

The accuracy of an economic forecast over a period extending to 1990 is conditional upon the realization of several hypotheses selected from a broad range of possibilities. Among the principal hypotheses selected which are likely to hinder more sustained growth in the Québec economy, mention should be made of the following:

—the U.S. economy should grow at an annual rate of about 2.5 percent;

—real interest rates, especially long-term rates, will remain fairly high;

—fiscal and budgetary policies in Canada will continue to be restrictive;

—currently sluggish worldwide demand for raw materials will persist;

—long-term potential for growth in the Canadian economy will continue to be weak, compared with the 1960s. There is nothing to suggest that factors underlying the structural decline in productivity which occurred in the early 1970s will disappear in the short run. Growth in the Canadian economy between 1988 and 1990 should reach about 3 percent; inflation should settle at around 4 percent.

MEDIUM -TERM ECONOMIC OUTLOOK IN QUÉBEC

			1987 to 1990		
	1976 to 1980	1981 to 1986	Entire period	1987 and 1988	1989 and 1990
Output					
Gross domestic product	12.2	8.0	7.1	7.2	7.0
Real domestic product	2.5	2.3	2.8	2.8	2.9
Components of demand					
Housing starts[1]	48.6	40.3	47.4	49.7	45.1
Retail sales	9.9	8.9	6.7	6.6	6.7
Components of revenue					
Wages and salaries	11.8	6.6	6.6	6.4	6.8
Personal income	12.7	8.6	6.6	6.4	6.8
Company profits	14.4	5.8	8.8	7.5	10.1
Prices and wages					
Consumer price index	8.8	6.9	3.9	3.8	4.0
Average weekly wage	9.6	6.3	4.2	3.9	4.4
Labour market					
Labour force	2.5	1.3	1.8	1.9	1.7
Employment	2.1	1.1	2.2	2.2	2.2
Unemployment rate[2]	9.9	12.3	10.2	10.6	9.8

1 Thousands
2 Percentage level

Private investment and exports of manufactured goods will be the main sources of growth in the Québec economy. In both instances, the increase might reach 4.5 percent in volume, thereby confirming trends noted in recent years. This favourable change will offset fairly slow anticipated growth in consumer demand, especially because of moderate population growth and fairly high real interest rates.

In structural terms, economic growth in Québec will benefit from the effects of modernization and greater production capacity in many industrial sectors in recent years. Massive investments in the pulp and paper and aluminum industries have bolstered the competitiveness of these important sectors on international markets. Many firms in more traditional sectors such as shoes, clothing and furniture have also responded to foreign competition by modernizing plants and rationalizing operations. Dynamic new businesses seeking to penetrate foreign markets continue to emerge, through the renewed vitality of the private sector and the appearance of a new class of entrepreneurs.

In light of the foregoing hypotheses, economic growth in Québec in the 1988-1990 period will be approximately 3 percent per year; employment should rise by 2.2 percent. The unemployment rate should fall from 11.0 percent in 1986 to roughly 9.5 percent in 1990.

Medium-term financial framework

According to the financial framework forecast, increase in budgetary revenue should exceed growth in expenditure in 1987-1988 by 2.6 percentage points, and by nearly 1 point subsequently. This change will shrink the budgetary deficit from $2 895 000 000 in 1986-1987 to $1 985 000 000 in 1989-1990.

Budgetary revenue

Over the forecast period, overall budgetary revenue should keep pace with gross domestic output. This growth can be explained, essentially, by the increase in own-source revenue, as federal transfers will grow at a rate appreciably below that in the economy.

Own-source revenue

The average rate of increase in own-source revenue should approach that in gross domestic product. However, in light of various fiscal measures and fluctuations in the net profits of government corporations, such growth rates may vary widely from one year to the next.

The experience of the last two years indicates that the increase in such revenue was markedly higher than growth in the gross domestic product. In 1985-1986, the discrepancy of nearly 5 percent was attributable above all to the fiscal measures in the 1985-1986 Budget, in particular the application of the sales tax to insurance premiums. In 1986-1987, there was a discrepancy of 2.8 percent as a result of the imposition of a surtax on corporate taxes and employer contributions to the health services fund, and the standardization of the taxation of various forms of energy.

CHANGE IN BUDGETARY REVENUE COMPARED WITH GDP
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990
Own-source revenue	14 549.2	15 600.7	16 006.1	17 951.8	19 650.0	21 254.0	22 884.0	24 300.0
% change		7.2 %	2.6 %	12.2 %	9.5%	8.2%	7.7%	6.2%
Federal transfers	5 292.3	6 336.5	6363.5	6 318.2	5 935.0	6 426.0	6 558.0	6 795.0
% change		19.7 %	0.4%	–0.7 %	–6.1%	8.3%	2.1%	3.6%
Budgetary revenue	19 841.5	21 937.2	22 369.6	24 270.0	25 585.0	27 680.0	29 442.0	31 095.0
% change		10.6 %	2.0 %	8.5 %	5.4%	8.2%	6.4%	5.6%
Growth rate of GDP % value		7.6 %	8.0 %	7.3 %	6.7%	7.7%	6.6%	7.1%

* For the calendar year ending three months before the end of the fiscal year.

Over the forecast period, and despite a number of discrepancies noted from year to year, growth in own-source revenue will keep pace with growth in gross domestic product. Average annual growth in own-source revenue will total 7.4 percent while that in the gross domestic product should reach 7.1 percent. In 1989-1990, growth in own-source revenue will be lower than that in the GDP because, among other things, the Régie de l'assurance automobile du Québec will no longer make a special contribution to highway safety, and because of the impact of fiscal measures announced in the Budget Speech.

Federal transfers

Every year, federal transfers are affected by adjustments to preceding years resulting from changes in data used to calculate such transfers. An analysis of federal transfers on an accrual basis, that is, including all payments related to a specific year regardless of the fiscal year during which they were received, makes it possible to eliminate the bias introduced into growth rates by momentary fluctuations in adjustments for previous years, and to give a more accurate picture of actual changes in transfer revenue. The following table outlines forecasts concerning federal transfers, according to both concepts.

CHANGE IN REVENUE FROM FEDERAL TRANSFERS
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990
Transfer revenue	5 292	6 337	6 364	6 318	5 935	6 426	6 558	6 795
% change		19.7	0.4	− 0.7	− 6.1	8.3	2.1	3.6
Adjustment to replace amounts received during the year in question	+64	−310	−203	−146	+147	− 37	+44	−21
Transfers on an accrual basis	5 356	6 027	6 161	6 172	6 082	6 389	6 602	6 774
% change		12.5	2.2	0.2	− 1.5	5.0	3.3	2.6

On an accrual basis, federal transfers will increase starting this year, after stagnating almost completely during the four preceding years. However, over the forecast period, such growth should be slightly lower than that in inflation. The actual value of federal transfers will continue to decline. Over the period 1986-1987 to 1989-1990, average annual growth in federal transfers should reach 3.6 percent, compared with 3.9 percent for consumer prices.

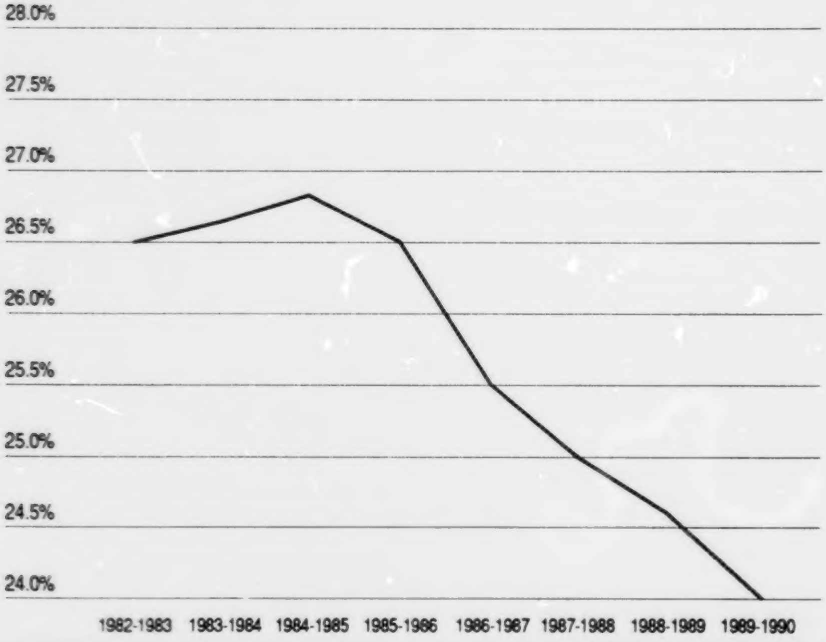
The repeated cutbacks made since 1982 in federal financing of health and post-secondary education explain, to a large extent, this slow growth. Moreover, the shortfall caused by these measures is increasing rapidly, mainly because of the de-indexation procedures concerning the federal contribution stipulated in Bill C-96, adopted in 1986. Estimated at $456 000 000 for 1986-1987, the shortfall sustained by Québec should reach $850 000 000 for the 1989-1990 fiscal year alone. Consequently, federal financial contributions to health and post-secondary education, considered on an accrual basis, should drop by 3.3 percent between 1986-1987 and 1989-1990. Appendix F explains this change in greater detail and compares it with changes in needs in both sectors.

After reaching a peak of 28.9 percent in 1983-1984, federal transfers as a percentage of Québec government budgetary revenue should drop to 21.9 percent in 1989-1990. In light of the government's high-priority financial objectives and the impossibility of increasing the burden of Québec taxpayers, in the coming years the government will have to compensate for slow growth in federal transfers by further rationalizing its spending.

Budgetary expenditure

The following graph illustrates two distinct phases in changes in government budgetary expenditure since 1982-1983. At that time, expenditure as a percentage of GDP was 26.5 percent, and it increased relatively little until 1984-1985, as compared with the preceding decade. However, in 1985-1986, and especially in 1986-1987, a new era in the management of government expenditure began. To avoid increasing the deficit, the government decided to markedly curb growth in its spending. Because of lagging growth in federal financing and an already crushing tax burden, efforts to put public finances in order had to focus above all on a rational spending policy. The challenge was to reduce growth in spending in an orderly fashion, at a time when the collective agreements of public sector employees were under negotiation. This objective was achieved through the efficient, prudent management of programs in government departments.

EXPENDITURE AS A PERCENTAGE OF GDP



Over the forecast period, growth in expenditure should be lower than economic growth. To attain this goal, budgetary rationalization measures will have to be implemented, equivalent to 1 percent of annual expenditures in 1988-1989 and 1989-1990. Moreover, for the same years, the forecast assumes that it will be possible to obtain $175 000 000 in net lapsed appropriations each year, through the management of expenditure during the year. It should also be noted that the forecast makes no provision for development expenditure. Cumulatively, these measures will mean that growth in expenditure will be brought into line with growth in inflation in 1989-1990 and that expenditure as a percentage of GDP will be reduced from 26.8 percent in 1984-1985 to 24.0 percent in 1989-1990.

COMPARISON OF CHANGES IN EXPENDITURE WITH CERTAIN ECONOMIC INDICATORS
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990
Budgetary expenditure	–22 260.5	–24 038.0	–26 165.3	–27 710.3	–28 480.0	–30 080.0	–31 642.0	–33 080.0
% change		8.0 %	8.8 %	5.9 %	2.8 %	5.6 %	5.2%	4.5 %
GDP growth rate in %*		7.6 %	8.0 %	7.3 %	6.7 %	7.7 %	6.6 %	7.1 %
Canadian inflation rate in %*		5.8 %	4.3 %	4.0 %	4.2 %	3.8 %	3.8 %	4.0 %

* For the calendar year ending three months before the end of the fiscal year.

Budgetary deficit

The financial framework forecast indicates that the budgetary deficit will reach $2 400 000 000 in 1987-1988 and fall to $2 200 000 000 in 1988-1989, then to $1 985 000 000 in 1989-1990.

SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990
BUDGETARY TRANSACTIONS								
Budgetary revenue	19 841.5	21 937.2	22 369.6	24 270.0	25 585.0	27 680.0	29 442.0	31 095.0
Budgetary expenditure	– 22 260.5	– 24 038.0	– 26 165.3	– 27 710.3	– 28 480.0	– 30 080.0	– 31 642.0	– 33 080.0
BUDGETARY DEFICIT	– 2 419.0	– 2 100.8	– 3 795.7	– 3 440.3	– 2 895.0	– 2 400.0	– 2 200.0	– 1 985.0
NON-BUDGETARY TRANSACTIONS								
Investments, loans and advances	– 761.1	– 671.7	– 167.4	132.9	– 401.0	– 285.0	– 825.0	– 700.0
Retirement plan account	1 051.2	1 056.7	1 183.5	1 269.0	1 353.0	1 453.0	1 565.0	1 760.0
Provision for financing the water purification program	—	—	—	—	9.0	12.0	15.0	– 5.0
Other accounts	– 107.9	– 535.4	766.4	298.5	184.0	– 230.0	—	—
BALANCE OF NON-BUDGETARY TRANSACTIONS	182.2	– 150.4	1 782.5	1 700.4	1 145.0	950.0	755.0	1 055.0
NET FINANCIAL REQUIREMENTS	– 2 236.8	– 2 251.2	– 2 013.2	– 1 739.9	– 1 750.0	– 1 450.0	– 1 445.0	– 930.0

N.B.: A (–) sign indicates a financial requirement.

Non-budgetary transactions

Over the forecast period, the balance of non-budgetary transactions will enable the government to finance a considerable portion of its budgetary deficit. The retirement plans account, in particular, will generate increasing surpluses, rising from $1 453 000 000 in 1987-1988 to $1 760 000 000 in 1989-1990.

Investments, loans and advances will create financial requirements throughout the period, primarily as a result of changes in the equity value of government investments in government corporations. The operating results of such corporations to be consolidated in budgetary transactions will not necessarily create movements of funds in the immediate future, in the form of dividends paid or otherwise. The return on these investments, which the government does not receive, is reinvested automatically in government corporations which issue such dividends, thereby creating an equivalent financial requirement with respect to non-budgetary transactions.

Net financial requirements

Net financial requirements will also decrease over the forecast period, parallel to a drop in the budgetary deficit. Such requirements will total \$930 000 000 in 1989-1990, after reaching \$1 450 000 000 in 1987-1988 and \$1 445 000 000 in 1988-1989.

It should be noted that the relation between the budgetary deficit and net financial requirements is not an immediate one. Net financial requirements are an indicator of the need for funds, in terms of receipts and disbursements, over a given period. The budgetary deficit is a measurement of the change in the government's net worth during a fiscal year. Since accounting procedures were modified in 1986-1987, the budgetary deficit, by reflecting the equity value of government investments, provides a more complete and up-to-date measurement of the overall results of government transactions.

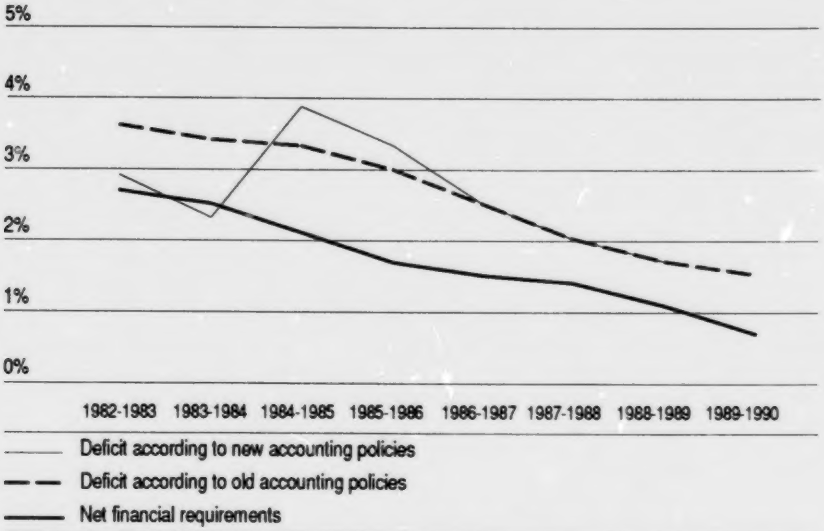
Financial indicators

The anticipated reduction in the deficit will appreciably improve the government's financial position.

Budgetary deficit and net financial requirements

The budgetary deficit and net financial requirements as a percentage of GDP will continue to fall throughout the forecast period. In 1989-1990, the budgetary deficit will represent only 1.4 percent of GDP, while net financial requirements will account for 0.7 percent of GDP.

BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS
(as a percentage of GDP)



Debt

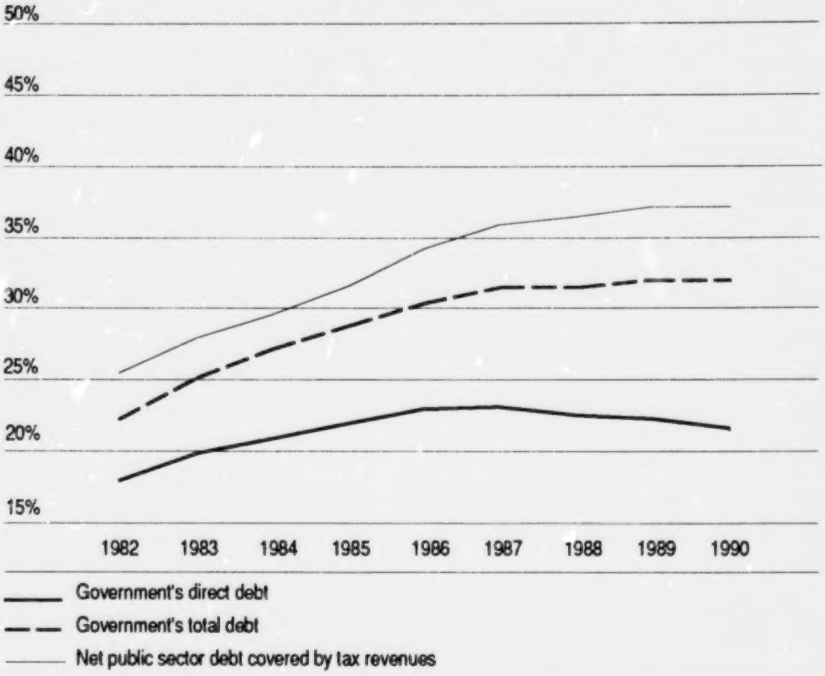
The reduction in the deficit and net financial requirements will result, primarily, in a drop in the rate of accumulation of debt. Three conceptions of debt may be used for the purpose of analysis.

First, direct debt, i.e. the government's long-term debt, to which is added outstanding Treasury bills. Such debt as a percentage of GDP reached a peak in 1986-1987; it will decrease throughout the forecast period, reaching 21.4 percent in 1989-1990.

Total government debt as a percentage of the GDP, i.e. direct debt, to which is added the reserve for the retirement plans of public and parapublic sector employees, will, for all practical purposes, stabilize at the end of the three-year period at 31.7 percent.

The third conception of debt which may be employed, that of net debt in the public sector covered by tax revenues, recognizes that the government is ultimately responsible for a number of commitments beyond those listed among its liabilities. To determine such overall indebtedness, it is necessary first to deduct from the total government debt the total investments, loans and advances held by the government in its corporations, since the government may realize them if it wishes. To this net result is added the local sector debt and that of the health and education networks. As at March 31, 1986, the net debt covered by tax revenues was equivalent to 34.2 percent of Québec's GDP. It should also stabilize as of 1989-1990, but at around 37 percent, which is fairly high.

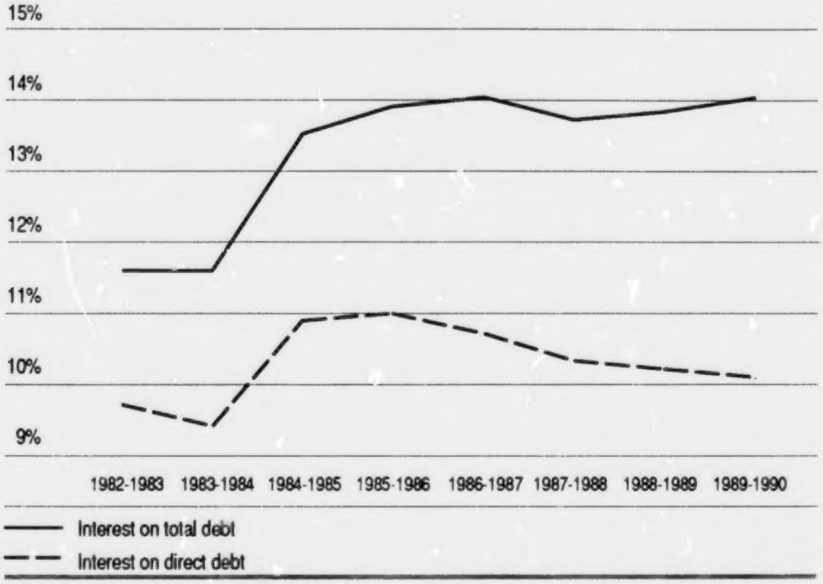
DEBT AS AT MARCH 31 AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT



Debt service

As the following graph indicates, the stabilization of the ratio of debt to GDP will have a positive effect on growth in the cost of debt service. While increase in interest costs has constantly hampered the government in recent years, the portion of budgetary revenue allocated to interest payments on direct debt will decline markedly over the forecast period. Interest on total debt as a percentage of budgetary revenue will settle at about 14 percent over the forecast period.

INTEREST COSTS AS A PERCENTAGE OF BUDGETARY REVENUE



Current account balance

The impact of the measures implemented by the government to restore its finances is also reflected in the changes in the current account balance. This concept makes it possible to illustrate how goods and services used and consumed during the year are financed by budgetary revenue rather than borrowings.

According to the traditional definition, the current account balance is calculated by deducting from the budgetary deficit the government's capital expenditures and subsidies paid by it for this purpose, and contributions to public and parapublic sector employee retirement plans. These contributions are deducted to avoid distorting the results, in light of differences in accounting for the plans from one province to another. According to this definition, the current account balance has been balanced since 1986-1987. Surpluses should be recorded during the forecast period.

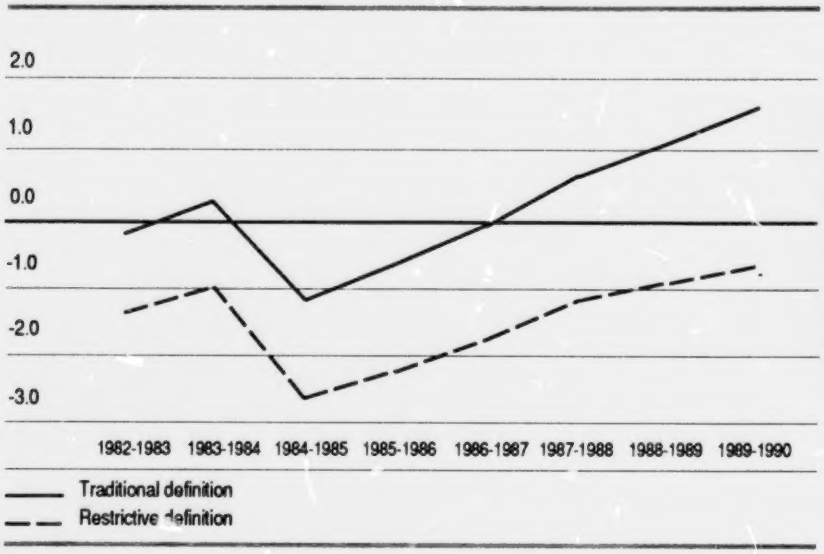
We must go even further in the medium-term. As "The Need for Immediate Action" noted, a portion of the government's contributions to public and parapublic sector employee retirement plans is a current expenditure.

The government's contribution to retirement plans is threefold: the contribution related to employees' current service, the contribution respecting interest paid by the government on borrowings from the non-budgetary retirement plans account, and the contribution for past service, which amortizes actuarial deficits related to past service.

A restrictive definition of the current account balance would deem all such contributions to be current expenditures. In light of the size of the actuarial deficit of the retirement plans, we will have to wait several years before we can cover all three components of the government's contribution to retirement plans from current revenues. According to this definition, the deficit of the current account balance would still be $590 000 000 in 1989-1990.

However, while it is obvious that the portion of contributions related to current service and interest payments on the retirement plans account should be the responsibility of the present generation, it is less clear who should assume responsibility for the portion respecting past service, which will total $457 000 000 in 1989-1990. On this basis, the three-year forecast indicates that, in 1989-1990, the current account would almost be balanced.

CURRENT ACCOUNT BALANCE
(in billions of dollars)



Conclusion

The three-year financial framework forecast, which presupposes stringent control over expenditure, reveals a remarkable improvement in Québec's public finances. This amelioration is apparent in the reduction of the deficit, the curbing of debt and the reduction of government expenditure as a percentage of gross domestic output. Despite these encouraging results, Québec government debt is still high.

The most marked improvement is to be noted with respect to the current account balance. According to the traditional definition, the current account balance recorded a $1 133 000 000 deficit in 1984-1985, but will show a $1 671 000 000 surplus in 1989-1990. Using a restrictive definition, under which all of the government's contributions to public and parapublic sector employees' retirement plans are deemed to be current expenditures, the deficit of the current account balance will still be $590 000 000 in 1989-1990. However, if we deduct from current expenditures the portion of contributions related to past service under retirement plans, the current account balance would only show a $133 000 000 deficit in 1989-1990.

The change recorded until now, and forecast for 1989-1990, is highly significant. It indicates that, over a relatively short period, it is possible to put Québec's public finances fully in order in the foreseeable future.

APPENDIX C

Treatment of Government Retirement Plan Commitments

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Introduction

In the 1986-1987 Budget Speech, the government initiated a reform of the accounting methods used in preparing its financial statements. This reform, resulting from criticism expressed by the Auditor General in preceding years, enabled the government to report its financial transactions with greater rigor, using a more appropriate approach. One of the important elements in the accounting reform's implementation, i.e. the treatment of retirement plan commitments, nevertheless required analysis in greater detail.

In his reports of previous years, the Auditor General issued a restriction concerning the fact that a portion of the government's commitments related to retirement plans was not entered directly as a liability, but was disclosed in a note to the financial statements. Furthermore, the Commission administrative des régimes de retraite et d'assurances (CARRA), which administers Québec public sector retirement plans, has stressed over the past few years that the government's accounting policy with regard to retirement plan transactions was deficient in certain respects.

Since the entire question of the government's liabilities with respect to retirement plans had to be considered from a broader perspective than that of accounting treatment alone, it was decided last year to maintain, for the time being, the accounting methods applied to these plans since 1978-1979 and to set up a task force to study the matter.

The ministère des Finances task force conducted an overall examination of the government's methods of evaluating and accounting for these liabilities, compared them with methods used elsewhere, and assessed them in light of the requirements of the accounting and actuarial professions. In carrying out this examination, the ministère des Finances called on the services of other government and private sector agencies.

Accounting of retirement plan commitments

Methods currently used

Government, education sector and health and social services sector employees belong to one of three main public sector retirement plans, namely, the Government and Public Employees Retirement Plan (RREGOP), which came into effect on July 1, 1973, the Civil Service Superannuation Plan (CSSP) and the Teachers Pension Plan (TPP) which ceased accepting new members on that same date. Moreover, Members of the National Assembly, judges, coroners, and members of the Sûreté du Québec participate in other retirement plans whose financing is, to varying degrees, the government's responsibility.

Until 1978-1979, the way in which the government handled its financial commitments with respect to these retirement plans varied from one plan to another. Since that time, treatment of the various plans has been standardized. Employee contributions to RREGOP are deposited in trust with the Caisse de dépôt et placement du Québec (CDPQ), whereas those of the participants in other plans are posted to a non-budgetary account appearing among the government's liabilities. The government's contributions as employer are charged to expenditure and entered in the same non-budgetary account.

These contributions are divided into three categories:

- The first consists of a contribution to current service, that is, an amount used to reflect the cost of pensions earned by participants during the current fiscal year. In 1986-1987, this contribution totalled $467 000 000 for all plans.

- The second consists of a contribution for past service, that is, service related to pensions earned by participants in previous years. The unfunded actuarial liability noted in this respect represents the present value of benefits to be paid to contributors for which no reserve has been set up. The government has been amortizing this unfunded actuarial liability since 1979-1980, over a 50-year period, according to the participants' total payroll. For 1986-1987, the government's contribution posted to expenditures in order to amortize this unfunded actuarial liability was $387 000 000.

- The third is made up of a contribution for interest entered annually on the balance of the retirement plans account appearing among the government's liabilities. In 1986-1987, this contribution was $802 000 000 for all plans, and the balance of the account was estimated at $9 351 000 000 at March 31, 1987.

The following table shows the growth in the amounts charged to budgetary expenditure in this regard since 1978-1979.

GOVERNMENT EMPLOYER CONTRIBUTIONS
TO THE RETIREMENT PLANS
(in millions of dollars)

	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987P
Current service	277	473	558	614	541	474	482	482	467
Past service	—	172	173	224	246	279	337	360	387
Interest	54	88	164	263	380	480	598	706	802
Total	331	733	895	1 101	1 167	1 233	1 417	1 548	1 656

P: Preliminary figures

Criticisms of current methods

The Auditor General is of the opinion that, although the government includes a note in its financial statements giving information as to its overall commitments with respect to the retirement plans, only a portion of these liabilities are accounted for in the financial statements, whereas it should normally enter the entire amount as a liability. In his view, steps should be taken to fully record all government commitments in regard to the retirement plans. Moreover, the Auditor General has stressed that the government's accounting policy concerning retirement plan transactions should not be defined with reference to budgetary policy, but rather in terms of accounting practices.

The shortcomings revealed by CARRA deal with certain very specific practices. To begin with, contributions for current service to the Sûreté du Québec and judges' and coroners' pension plans are recorded according to a proportion of participants' contributions which does not reflect their actual cost. Secondly, the cost of service transferred from the TPP and CSSP to RREGOP, for participants who opted for this plan when it was created, and costs related to benefits granted to certain participants are, for all intents and purposes, recorded only on a pay-as-you-go basis and are not amortized. Thirdly, RREGOP has an accounting deficiency which is not subject to any recording measures. This deficiency has arisen primarily because no interest was recorded on this plan's accumulated reserve between 1973 and 1978. Finally, CARRA feels that a mechanism should be created to take into account the differential resulting from the fact that the non-budgetary retirement plans account is credited with an interest rate which differs from the rate of return on employee contributions deposited in trust with the CDPQ.

Accounting standards and methods used elsewhere

The Québec government, like any body publishing such statements, is responsible for drawing up the accounting policies governing the preparation of its financial statements. However, it must ensure that the presentation of the results of its financial transactions comply with "generally accepted principles", and with the recommendations of accounting regulatory bodies. At the same time, it must ensure that the information in its statements is presented in a reasonably similar way to that provided by other governments in Canada.

At the present time, there is no body of accounting standards specifically applicable to government financial transactions, especially those involving the treatment of pension plans. In the meantime, governments must therefore strive to improve their methods, taking as their model standards issued for the private sector, adapting them in the appropriate fashion.

The Canadian Institute of Chartered Accountants (CICA) and the Financial Accounting Standards Board (FASB) in the U.S. have recently amended their recommendations for the private sector concerning the recording of pension plan costs and liabilities. Chapter 3460 of the CICA's manual, published in April 1986, and statement No. 87 of the FASB embody the new recommendations which are to be applied to pension plans, for fiscal years beginning December 1986 or thereafter. The new recommendations deal with, in particular, the actuarial valuation methods to be employed, the assumptions to be used in the calculations, how to present and carry out the accounting adjustments which may be required and the financial information to be disclosed in the financial statements. The practices of the Québec government have been examined in light of the spirit of these recommendations.

Furthermore, there are numerous, major differences between the methods used by various governments in Canada to account for their pension plan commitments. For instance, the valuation of recorded liabilities is not always fully carried out. In certain cases, the effects of future pension indexation are not explicitly taken into account. In addition, certain provinces, including Québec, show unrecorded commitments which may be significant. However, it appears that the Québec government is alone in having adopted a specific policy of amortizing its unrecorded past service pension liabilities.

The examination has justified the claim that overall, the Québec government is generally stringent in its accounting and disclosure methods applicable to pension plan obligations, compared to the situation in the country as a whole.

Valuation of retirement plan commitments

The results of an actuarial valuation can be very sensitive to the calculation methods and assumptions used. Since there is a wide range of methods used to evaluate pension plans, the choice of a particular method must be adapted to the type of plan in question and to the specific objective of the valuation. The demographic and economic assumptions used must realistically and coherently reflect the assessment of events likely to affect the actuarial value of the plan being evaluated.

Methods currently used

CARRA made its first actuarial valuations of public sector pension plans for whose obligations the government is partially responsible as at December 31, 1975. Three other valuations have been carried out since then, in compliance with the legislative provisions in effect.

The valuation methods used up to now have focussed on plan funding, that is, they have been selected to determine the amounts required to provide a reserve[1] from which to pay benefits under the plan. In order to maintain a stable level of contributions from the participants and the employer over time for the purpose of building up the required reserve, a level percentage benefit method[2] has been used for all valuations. Moreover, although these valuations originally focussed on plan funding, they were also used to record transactions in the government's books relating to the retirement plans.

The assumptions used in the actuarial calculations take into account changes in the participating population from one valuation to the next, and embody reasonable estimates of how the various economic variables involved are expected to perform. Moreover, the consulting actuary who must issue an independent assessment of the appropriateness of the assumptions used in each actuarial valuation has concluded that they accurately reflect the circumstances surrounding Québec's public sector pension plans.

Regulatory agency standards and methods used elsewhere

The position of the Canadian Institute of Actuaries (CIA) is that the choice of an actuarial valuation method must be determined by the purpose and circumstances of the valuation. The CIA allows and encourages the use of various actuarial methods, depending on whether the valuation is aimed at plan funding, its accounting for the purposes of allocating its costs as part of the employer's activities, the distribution of its assets in the event of the plan's termination, or determination of the value of the plan's benefits for purposes of comparisons among plans.

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[1] The reserve is made up of amounts deposited in trust with the CPDQ and the non-budgetary retirement plans account which appears as a government liability.

[2] Under this method, the projected cost of all future benefits under a plan is distributed for each period by allocating to it an equal amount or a fixed proportion of pensionable salary.

The level percentage benefit method used until now is appropriate to valuations aimed at a plan's funding. However, accounting regulatory bodies recommend that, for purposes of recording pension plan transactions for the preparation of the financial statements of the employer, a unit credit actuarial cost method be used, prorated for the number of years of service.[1] This method, which is sanctioned by the CIA, is preferred by the CICA because it makes possible a better matching of costs attributed to a fiscal year and benefits earned during that same fiscal year. The commitments and costs reflect the pensions actually earned by the participants for services actually rendered. They are in no way affected by future service and their calculation more adequately takes into account the age of the contributors at the time the services are rendered.

In this regard, it should be noted that the great majority of other governments in the country already use unit credit actuarial cost methods, such as the one recommended by the CICA, for the actuarial valuations used in accounting for their pension plan obligations.

It is generally acknowledged that the demographic and economic assumptions used in actuarial valuations must reflect the most probable course of future developments with respect to the variables involved. On the basis of available information, it appears that the assumptions used in the actuarial calculations carried out for the plans of the various governments in Canada are clustered within a fairly narrow band, ensuring that the results obtained are presented in a reasonably similar way.

Changes in current methods and their impact

The conclusions of the study

From the study of the accounting and valuation methods the Québec government uses for its public sector pension plan commitments and their comparison with the requirements of the accounting and actuarial professions and with the methods used elsewhere in the country, it can be concluded that most of the practices currently in use should be maintained. These include the assumptions used in the actuarial valuations, the treatment currently applied in these valuations to the pension indexation benefit, the method of charging to expenditure the cost of current service under most of the plans, and the method for amortization and presentation of past service for plans other than RREGOP, as well as the crediting of interest on the balance of the non-budgetary government retirement plans account.

Nevertheless, it was clear that certain accounting practices currently in use should be amended and that the government would have to adopt an accounting policy that specifically stated which practices are to be followed, rather than simply referring to the budgetary policy in effect, for the purpose of meeting its pension plan obligations.

By implementing the changes described below, the Québec government's treatment of its pension plan commitments will fully comply with the spirit of the basic requirements of the CICA and the CIA. Regarding principles, it will then be more rigorous than the treatment applied to date by other governments in Canada. It will also enable the government to show in its liabilities, at the end of the amortization period, the full amount of all its pension plan obligations and to rectify a situation whereby a number of commitments were not hitherto subject to any systematic accounting measure.

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[1] This method calculates the actuarial value of benefits related to services actually performed up to the date of the valuation.

Changes to existing methods

Actuarial valuation method

The main amendment to the treatment of pension plan commitments to be introduced beginning in fiscal 1987-1988 concerns valuation methods. In view of the recommendations of the CIA and the CICA, the level percentage benefit method will continue to be used for purposes of plan funding and, for purposes of recording the cost and the commitments in the government's books, actuarial valuations will be produced using the unit credit actuarial cost method prorated for years of service.

Full recording of current service cost

In addition, commitments which, up to now, have not been systematically and adequately accounted for will be recorded in such a manner as of April 1, 1987. The government will charge to expenditure the full cost of current service for all its plans, which will involve higher current contributions to the Sûreté du Québec and judges' and coroners' plans.

Amortization of unrecorded commitments

Measures will also be adopted to amortize the unrecorded commitments for years of service transferred from the TPP and the CSSP to RREGOP and for benefits granted to certain participants. These unrecorded liabilities, which have been charged to date as they fell due, will be shown in a note to the financial statements, and amortized over the remainder of the 50-year period determined in 1979-1980 to amortize past service under the TPP and the CSSP. Amortization amounts will be calculated using the formula applied to past service under both plans, that is, as a fixed proportion of the combined payroll of the TPP, the CSSP and RREGOP. This formula was chosen because no fundamental distinction can be drawn between the three plans.[1]

The accounting deficiency noted with respect to interest on the accumulated reserve for RREGOP will also be amortized beginning in fiscal 1987-1988. Since the deficiency is related to a recent plan and has developed over a relatively short time, the unrecorded commitment in this regard will be amortized over the estimated duration of the remainder of the careers of the plan participants, with the amortization amounts being determined as a fixed proportion of their total payroll. The portion of this commitment still to be amortized at the end of each year will be shown in a note to the financial statements.

Finally, beginning with the next actuarial valuation, which will be carried out as at December 31, 1987 under the terms of the applicable legislation, systematic account will be taken of the spread between the reference rate used to determine the long-term yield assumptions of actuarial valuations and the interest rate charged to the balance of the retirement plans account shown in the government's liabilities. The adjustment to be made for the experience difference which may appear will be shown in a note to the financial statements, and amortized over a period of fifteen years using the straight-line method.

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[1] When RREGOP was created, the government could just as well have amended the TPP and the CSSP, merged them and expanded eligibility, rather than set up a whole new plan.

Impact of changes

No impact on net financial requirements

The effect of the changes made in the treatment of retirement plan commitments in this Budget will be apparent in budgetary expenditure and the balance of non-budgetary transactions. Since receipts and disbursements will not be affected, the impact of these changes on budgetary and non-budgetary transactions will offset each other perfectly. As a result, the changes implemented will have no impact on the government's net financial requirements.

Furthermore, as recommended by the new standards issued by accounting regulatory agencies, the changes made will be applied prospectively, that is, they will affect the results of the government's financial transactions only beginning in the year they actually come into force. The results of previous years will not, therefore, be modified through the application of these new practices.

Net actuarial deficit down $1.8 billion

However, it should be noted that recording liabilities according to the method of actuarial valuation advocated by the CICA will reduce the net actuarial deficit for all government plans by some $1 800 000 000.

The table below shows the impact of each change on the government's financial transactions as integrated into medium-term forecasts in this Budget.

ESTIMATED EFFECT OF MODIFICATIONS IN THE TREATMENT OF RETIREMENT PLAN COMMITMENTS
(In millions of dollars)

	1987-1988	1988-1989	1989-1990
Budgetary transactions			
Revenue	—	—	—
Expenditure			
—use of the actuarial valuation method recommended by the CICA	+ 110	+ 123	+ 135
—posting of full cost of current service	− 27	− 27	− 29
—amortization of the service transferred from the TPP and CSSP to RREGOP, and of benefits granted to certain participants	− 25	− 27	− 29
—amortization of the accounting deficiency with regard to interest for RREGOP	− 51	− 56	− 62
—amortization of the spread between the reference rate used to determine the long-term yield assumption and the rate of interest charged to the non-budgetary retirement plans account	—	—	− 39
—subtotal	+ 7	+ 13	− 24
—additional interest derived from application of these measures	—	− 10	− 22
	+ 7	+ 3	− 46
Deficit	+ 7	+ 3	− 46
Non-budgetary transactions			
Balance	− 7	− 3	+ 46
Net financial requirements	—	—	—

N.B.: A (−) sign indicates a financial requirement and a (+) sign, a source of financing.

APPENDIX D

Review of the Economic Situation in 1986 and Outlook

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Economic Indicators, Québec 16

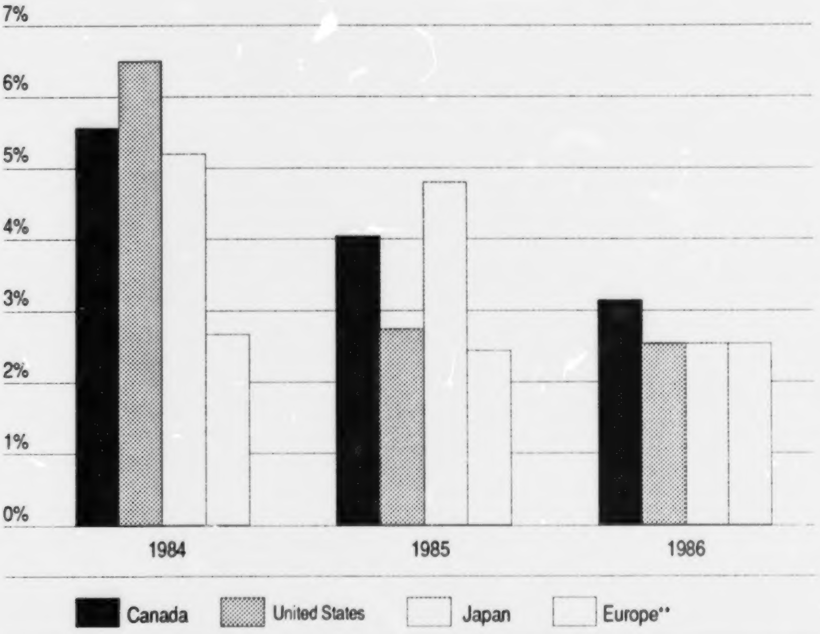
The vigorous rise in domestic demand enabled the Québec economy to continue growing rapidly in 1986; its output volume was up 3.3%. In Canada, on the other hand, the deterioration of export markets and the drop in energy sector investments were reflected in a rise that was slightly lower than Québec's. For the country as a whole, the gross domestic product was up 3.1%. Despite the slowdown in economic growth compared to the previous year, this performance places Québec and Canada high among top-ranking industrialized countries since the growth in output of the OECD member nations was restricted to 2.5%.

The outlook is quite favourable for 1987 although the Québec economy, like Canada's, will inevitably slow down in this fifth year of an economic expansion cycle which began in late 1982. Output is expected to grow by 2.7%, a rate similar to that anticipated for our trading partners.

The economic situation in 1986

On an international scale, the economy continued to slow, blurring the disparities in growth noted among the major nations at the beginning of the recovery. In Japan, exports levelled off, causing the economy to slow down. Japan thus joined the ranks of those countries experiencing average growth. As a rule, although the drop in the interest and inflation rates was encouraged by the decline in crude oil prices and the pursuit of cautious economic policies by the leading countries, the positive impact of these developments on output growth was not as marked as might have been expected. Furthermore, 1986 was characterized by a developing awareness of how long it could take to reduce the principal world imbalances. The realignment of currencies was slow to be reflected in the balance of payments, preventing the American economy from becoming stronger, and thereby accentuating protectionist tensions in the United States.

GROSS NATIONAL PRODUCT* OF SELECTED OECD COUNTRIES
(annual percentage change)



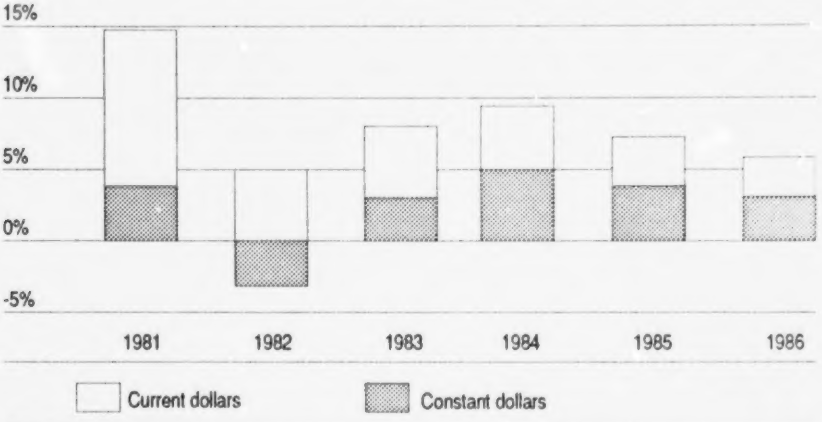
* In volume
** Four major countries: Germany, Italy, France, United Kingdom.
Sources: OECD Economic Outlook, December 1986, Data Resources Inc., Review of the U.S. Economy, March 1987, Statistics Canada.

Canada

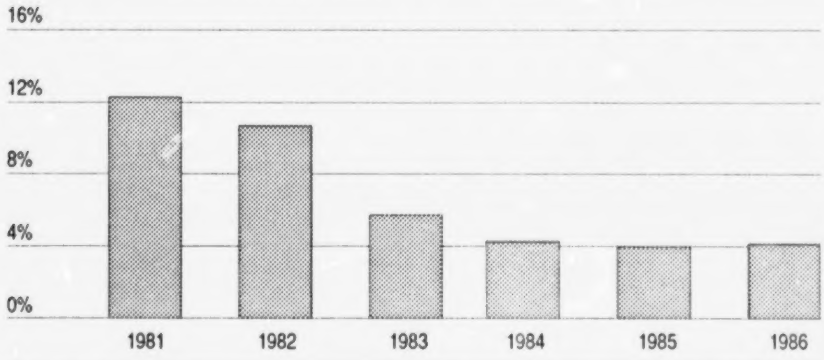
Although Canada's economic performance was good, in many respects, the events marking the national economic situation had conflicting effects during the year. For instance, although the continued downward trend in interest rates definitely sustained economic activity, the same cannot be said for declining oil prices or weakening export markets. In 1986, economic growth was 3.1%, down from 4.0% in 1985. This reflects a slowdown in domestic demand in addition to the drop in net exports, which were partially offset by a larger accumulation of inventories than in the preceding year.

Although a pronounced decrease in crude oil prices caused the inflation rate to drop significantly in most countries, Canada's inflation rate rose slightly to 4.2%. The decline in gasoline and fuel oil prices and the continued slowdown in negotiated wages were counterbalanced by rising food prices, an increase in the price of imported products, especially new cars from overseas, and the levying of indirect taxes by the various levels of government.

GROSS DOMESTIC PRODUCT — CANADA
(annual percentage change)



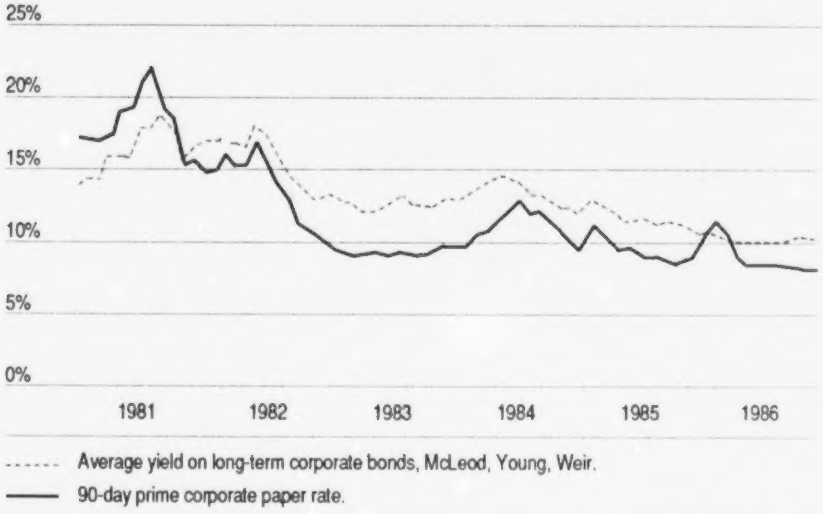
CONSUMER PRICE INDEX
(annual percentage change)



Sources: National Income and Expenditure Accounts, S.C., 13-001
The Consumer Price Index, S.C., 62-001

The drop in American interest rates enabled the Bank of Canada to reduce Canadian interest rates. On the average, some short-term rates dropped by as much as 50 basis points and long-term rates declined by about 150 points. However, the decline was much more modest than in the United States since the Canadian dollar continued to experience pressure throughout the year, leading the Bank to maintain very large differentials with the United States.

SHORT AND LONG-TERM INTEREST RATES — CANADA



Source: Bank of Canada

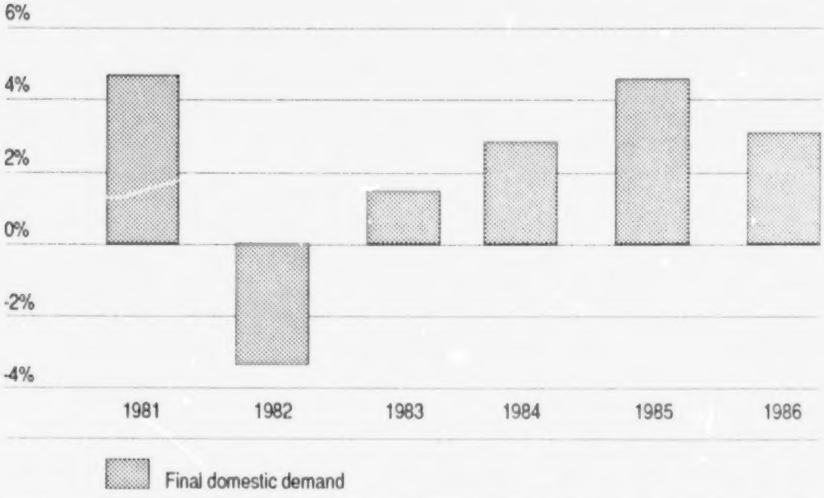
After experiencing a marked increase in 1985, final domestic demand slowed down, from 4.6% to 3.1%, principally because of the sudden halt in the recovery of non-residential investment begun the preceding year, and of a slowdown in personal spending. Nevertheless, household consumption continued to grow more rapidly than income, such that the decline in the savings rate begun in 1983 gathered momentum. Moreover, residential construction increased dramatically. It was the only category of domestic demand to grow faster in 1986 than in 1985.

After three years of annual increases exceeding 10%, the demand for automobiles slowed down, curbing personal spending. However, the marked increase in housing demand gave rise to an upsurge in the purchase of furniture and household appliances with the result that the demand for durable goods continued its rapid growth. Furthermore, the demand for semi-durable goods once again rose significantly and the demand for services gained strength from the considerable increase in tourist activity generated by Expo 86.

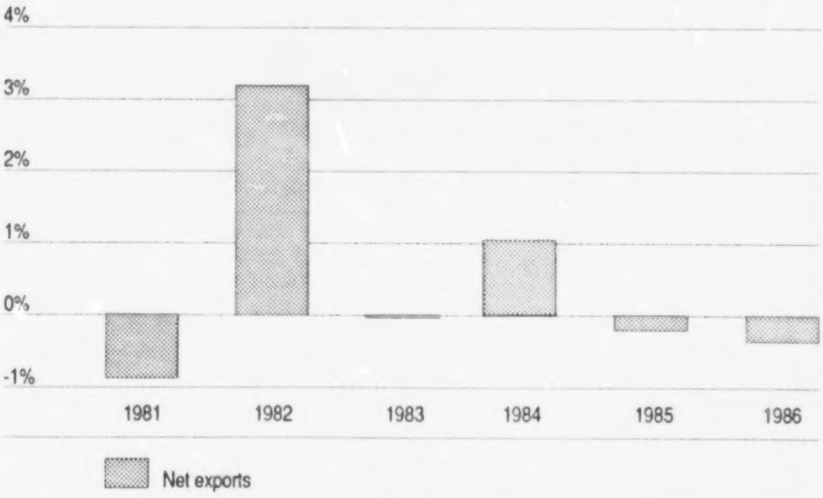
Residential construction jumped 13.2% in 1986 mainly because of major progress in new dwellings; housing starts totalled 199 785 units last year compared to 165 826 in 1985. Moreover, the resale market was up 10.7% and continued to boom, especially in central Canada.

Non-residential investment was one of the main sources of the slowdown in Canadian domestic demand in 1986, since the drop in oil prices brought the recovery begun in 1985 to a sudden halt. Non-residential construction fell off by 7.7% while expenditures related to the exploration and development of oil and gas resources plummeted. This drop was attenuated, however, by increased purchases of machinery and equipment, especially in the manufacturing and services sectors, mainly in central Canada.

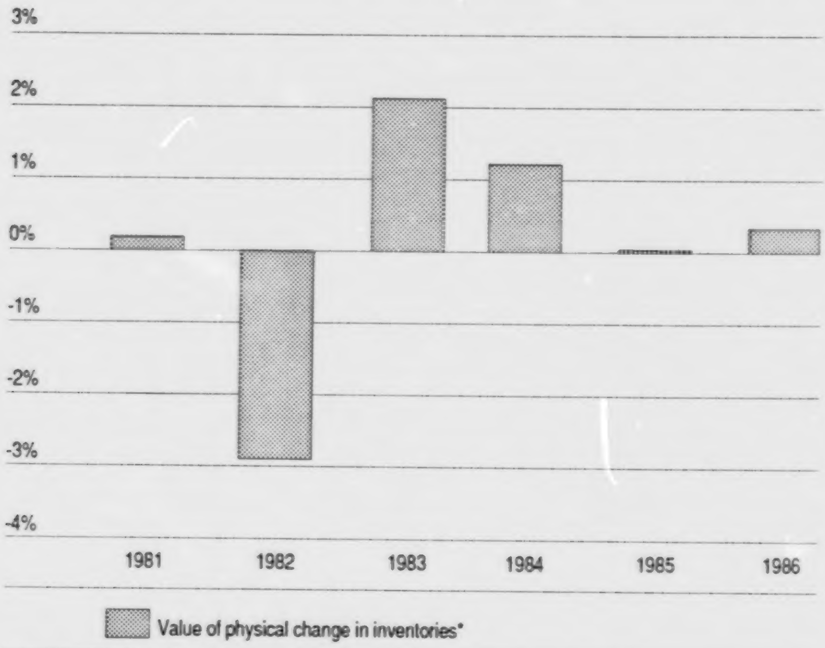
SOURCES OF GROWTH — CANADA
(annual percentage change)



SOURCES OF GROWTH — CANADA
(annual percentage change)



SOURCES OF GROWTH — CANADA
(annual percentage change)



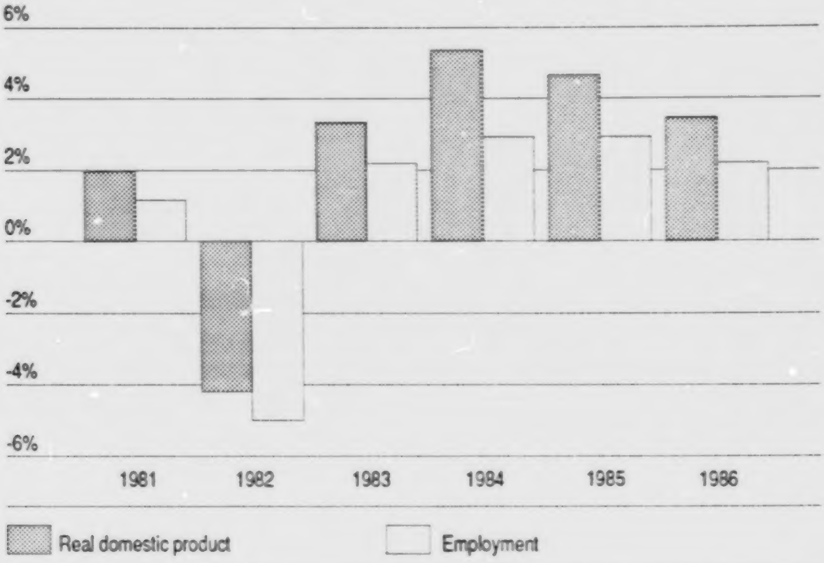
* Net contribution to growth as a percentage of GDP.
Source: National Income and Expenditure Accounts, S. C., 13-001.

Québec

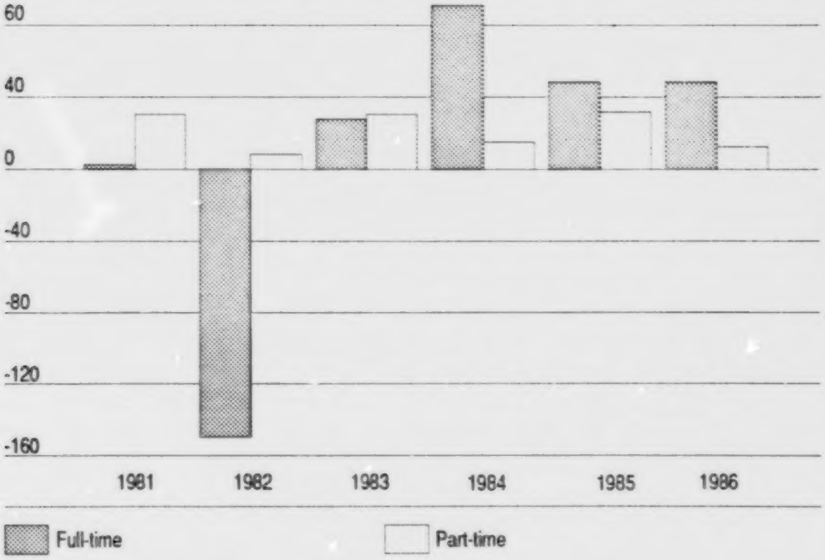
Québec experienced economic growth of 3.3% in 1986. In some aspects developments in its economic situation last year proved more positive than forecast at the beginning of the year. Investment was more sustained than suggested early in the year by the Statistics Canada's survey on the outlook for private and public investment. Housing starts, in particular, reached a level unprecedented in the past ten years while non-residential private investment rose by 10.9%, twice as rapidly as forecast early in the year. Finally, consumer confidence remained very high and was reflected by continued rapid growth in personal spending. The growth of output was particularly strong in the construction and trade sectors as well as in other service industries. Taking inflation into account, the value of the gross domestic product is estimated to have risen by 6.7% to reach almost $112 000 000 000.

Paralleling developments in production, employment was up 2.2% and 62 000 new jobs were created, 48 000 of which were full-time positions. Gains were particularly marked in construction, manufacturing and trade, with 15 000, 17 000 and 24 000 new jobs. As a result, and given the 1.3% growth in the labour force, the unemployment rate dropped from 11.8% to 11.0% in 1986, and the number of unemployed fell by 20 000.

REAL DOMESTIC PRODUCT AND EMPLOYMENT — QUÉBEC
(annual percentage change)



FULL-TIME AND PART-TIME JOB CREATION
(in thousands)



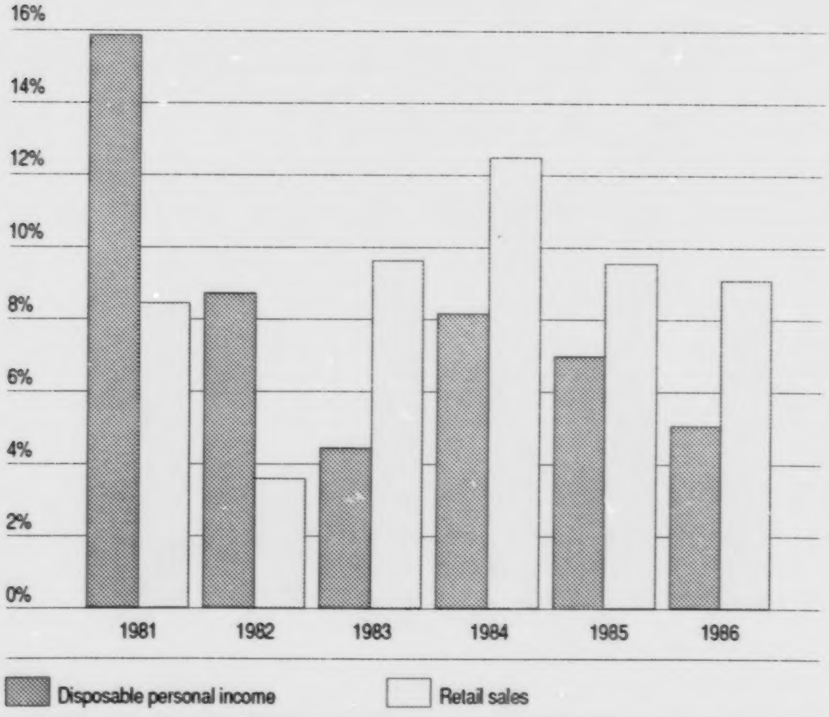
Sources: Conference Board of Canada
The Labour Force, S. C., 71-001

Household income and spending

Household demand remained a cornerstone of economic growth during 1986. Although incomes grew somewhat more slowly than a year earlier, households continued to reduce their savings rate, buoyed by favourable economic conditions. Personal income is estimated to have risen by 6.4%, which is down from 1985, mainly because of slower growth in wages and salaries. Growth in disposable income was limited to 5.0% as a result of the income tax increases brought in by the federal government over the past two years.

However, compared to the preceding year, retail trade slowed down only slightly, from 9.6% in 1985 to 9.1%. With the exception of service station sales, which fell as a result of lower gasoline prices, most major categories of stores recorded significant sales increases. Furniture and household appliance stores, helped by the surging housing demand, posted an increase of 15.9% in sales, taking over from automobile dealers the top spot among the most vigorous categories. Moreover, automobile dealers followed up last year's exceptional performance with a 14.1% gain in sales. Finally, sales by other stores, including food and clothing retailers, continued their rapid growth, rising from 9.0% to 10.0%.

DISPOSABLE PERSONAL INCOME AND RETAIL SALES — QUÉBEC
(annual percentage change)



Sources: Ministère des Finances du Québec.
Provincial Economic Accounts, S.C., 13-213.
Retail Trade, S.C., 63-005.

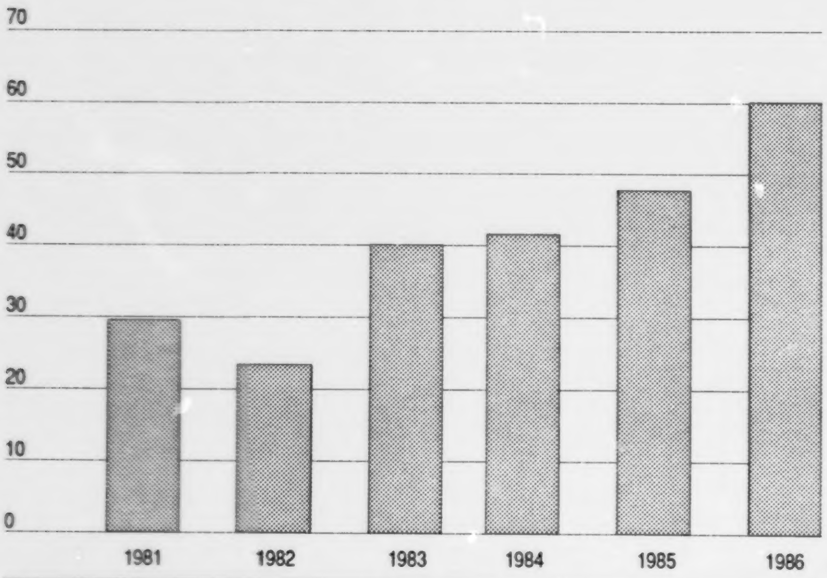
Private and public investment

For the fourth year in a row, Québec continued to outperform the rest of the country with respect to investment. Private and public investment in Québec grew by 8.4%, for a total of $20 862 200 000.

Residential construction

Housing starts were up 25.6% over last year, totalling 60 348 units. This is the second highest annual total recorded since figures have been published and, given the level of household formation and the fact that subsidy programs were not available, it is a remarkable achievement. Although economic conditions, and in particular further reductions in interest rates, stimulated growth in owner-occupant housing starts, a significant share of the growth in new construction is attributable to a marked return to favour of the rental sector.

HOUSING STARTS — QUÉBEC
(in thousands of units)



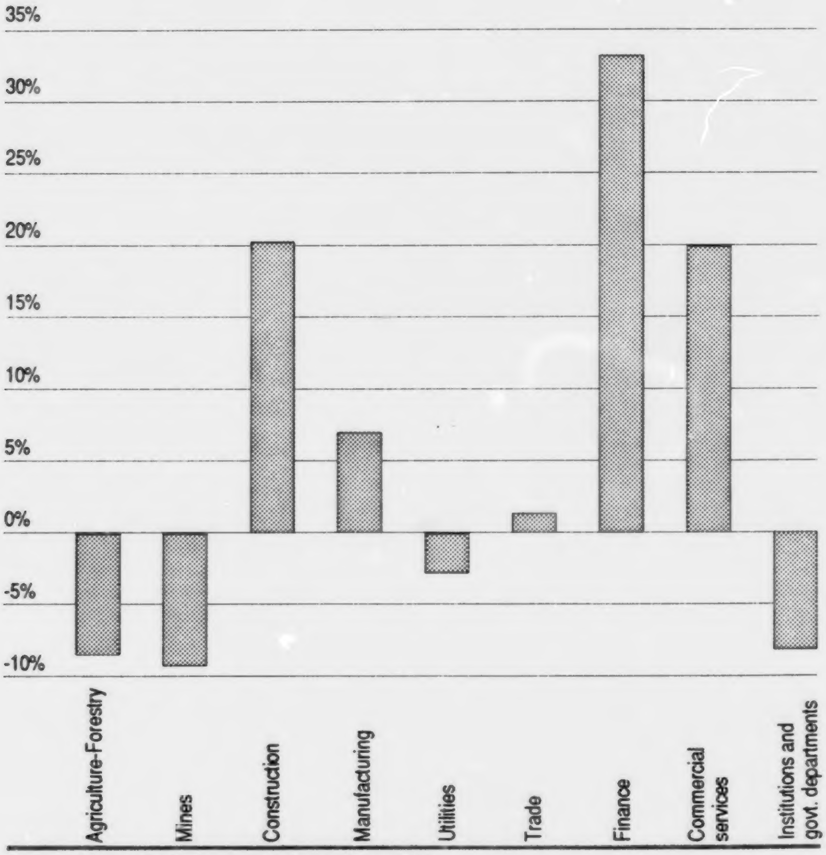
Source: Canada Mortgage and Housing Corporation.

Non-residential investment

Non-residential investment grew by 3.4% in Québec in 1986, compared to 1.1% in Canada. Capital investment continued to grow rapidly in the private sector, advancing by 10.9% compared to 4.1% for the country as a whole. However, commercial public enterprises reduced their capital spending, although at a slower rate than last year.

The rate of private investment in Québec's economy reached 8.2%, its highest point since 1980. Growth was especially strong in the service industries, notably in the finance and commercial services sectors, which maintained their strong performance of 1985. Capital expenditures in the manufacturing sector were up 7.1%. The significant gains noted in the pulp and paper (48.6%), chemical (45.8%) and transportation equipment (15.9%) industries and most other sectors, however, were partially obviated by a drop in the primary metals industry (-39.9%). With the exception of this last sector, manufacturing investment was up 24.5%.

NON-RESIDENTIAL INVESTMENT — QUÉBEC 1986
(annual percentage change)



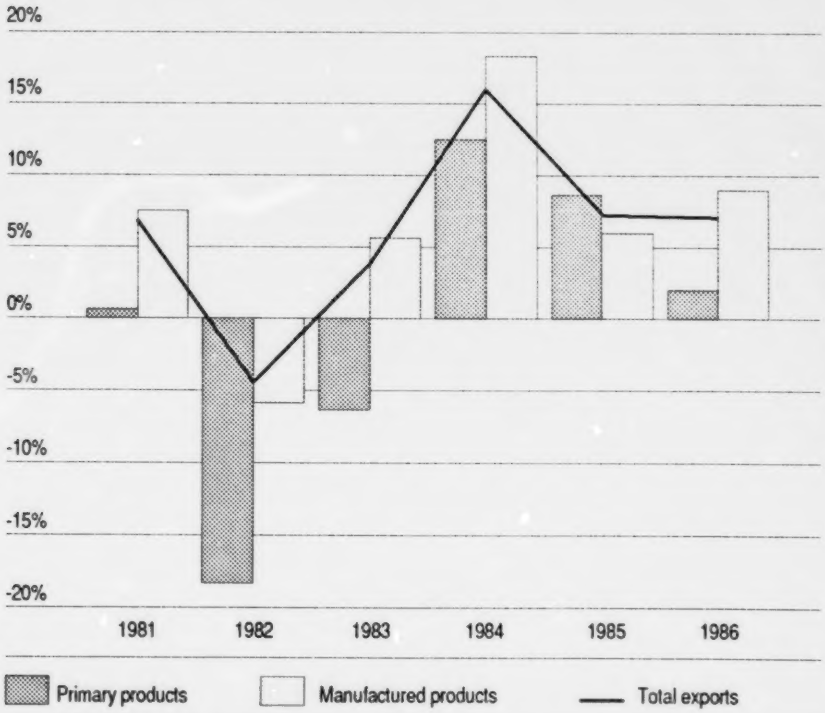
Source: Private and Public Investment in Canada, S.C., 61-205.

International exports

Québec was not affected by the shrinkage in export markets which hit the country as a whole. The value of international exports loaded in Québec rose by 7.1%, virtually the same rate as last year. Had it not been for the significant slowdown in shipments of metals and minerals, the overall performance for 1986 would have exceeded that for 1985. Exports of manufactured products, which account for about 85% of international exports loaded in Québec, rose by 8.9%, a much stronger increase than the previous year.

The large gains registered in most of the major groups of manufactured products more than offset the setbacks in refined oil products and automobiles and parts. The surge of 118.2% in sales of rolling stock is due to Bombardier's shipment of subway cars to New York City. Shipments of aeronautic equipment responded to renewed strength in demand by leaping 19.4%. Turning to intermediate products and supplies, shipments of pulp and paper and metal products were up. In particular, aluminum exports surged up 39.4%, attributable in large part to the Pechiney plant, which was progressively brought on stream, and to improved world aluminum inventories.

INTERNATIONAL EXPORTS LOADED IN QUÉBEC
(annual percentage change)



Source: Bureau de la Statistique du Québec.

Outlook for 1987

A review of the economic situation during the past few years, together with anticipated economic developments in our major trading partners, suggests the Québec economy will continue to grow at a sustained rate. However, while the expansion cycle will be entering its fifth year since the 1982 recession, it will not be possible to completely offset the slowdown that can be expected in domestic demand with more significant penetration of export markets. The forecast is therefore that the rate of economic growth, both in Québec and in Canada, will continue to decline.

External environment

Economic growth of 2.5% in industrialized countries

The industrialized nations, while continuing their efforts to correct budget and trade imbalances, will grow at rates in the order of 2.5% in 1987. Domestic demand in the United States will lose steam under the combined pressure of a reduced budget deficit, tax reform and low personal saving rates. However, this slowdown will be offset by a significant increase in the volume of U.S. net exports in response to the improved competitive position of American goods resulting from currency realignment. Thus, in contrast to previous years, the export sector will become the major source of economic growth in the U.S., with the industrial sector benefiting most from this improved outlook. Although domestic inflationary pressures will continue to be weak, the depreciation of the U.S. dollar over the past two years and the return of crude oil prices to the U.S. $18.00 level in 1987 will, according to the experts, double the 1986 rate of inflation in the U.S.

Economic conditions in Canada should favour continued growth. The recent strength of the Canadian dollar combined with lower interest rates in the United States will be reflected in falling interest rates in Canada. The negative effects of lower crude oil prices should fade gradually and Canadian products should be more successful on foreign markets than in 1986. On the other hand, domestic demand is expected to slacken somewhat, mainly on the consumption side. Consumers will nonetheless remain the pillars of economic expansion. Gross domestic product is therefore expected to grow by 2.5% compared to 3.1% in 1986.

Inflation is expected to decrease slightly, from 4.2% to 3.8%, since the rise in the price of gasoline and fuel oil during the year will be accompanied by smaller increases in food prices, moderate wage increases and a stronger Canadian dollar in relation to the American dollar.

Summary of outlook for Québec

The volume of output is expected to grow by 2.7% in 1987, with gross domestic product up by 7.7%. Non-residential investment and consumption will continue to supply much of the impetus for growth in domestic demand. The pace of activity in residential construction, however, will slacken somewhat, following the strong performances of recent years. Finally, Québec's economy will benefit from a rise in its international exports, stimulated by the realignment of currencies and stronger industrial demand in the United States.

7.1% increase in retail sales

Consumer demand will strengthen thanks to lower interest rates and the recent high level of consumer confidence, which will push the savings rate down further. As a result, retail sales are expected to increase by about 7% this year. On the other hand, housing starts, after substantially exceeding the requirements of the Québec economy last year, particularly with respect to multiple-unit rental housing, should drop back to about 53 000 units.

Although capital investment is expected to slacken in the residential sector this year, the situation is quite the reverse with respect to non-residential gross fixed capital investment. Based on the results of the most recent Statistics Canada survey of the public and private investment outlook, this year's performance, expected to reach 7.6%, will be better than that of 1986.

Employment up, unemployment down

The continued growth of the economy will generate gains in employment of the same order as in 1986. The service sector will account for a greater proportion of the 65 000 new jobs (2.3%) forecast for 1987 than last year. Given the increase of close to 2% in the labour force, the unemployment rate is expected to fall slightly from 11.0% in 1986 to 10.8%.

SUMMARY OF OUTLOOK FOR QUÉBEC

	1986	1987
	%	%
Output		
☐ Gross domestic product	6.7	7.7
☐ Real domestic product	3.3	2.7
Components of demand		
☐ Non-residential investment	3.4	7.6
☐ Housing starts[1]	60 348	53 000
☐ Retail sales	9.1	7.1
Components of income		
☐ Wages and salaries	5.6	7.2
☐ Personal income	6.4	6.9
☐ Corporate profits	2.3	7.8
Labour market		
☐ Labour force	1.3	1.9
☐ Employment	2.2	2.3
☐ Unemployment rate	11.0	10.8

[1] Units.

ECONOMIC INDICATORS
CANADA

	Unit of measurement	1982	1983	1984	1985	1986[1]	82-81	83-82	84-83	85-84	86-85	86-82[2]
							%	%	%	%	%	%
Gross domestic product	$ 000 000	374 750	405 425	443 327	476 361	505 227	5.3	8.2	9.3	7.5	6.1	7.8
Real domestic product	$ 000 000 81	307 522	317 202	333 274	347 709	358 938	– 3.8	3.1	5.1	4.3	3.2	3.9
Per capita real domestic product	$ 81	12 485	12 747	13 265	13 711	14 026	– 4.9	2.1	4.1	3.4	2.3	3.0
Personal income	$ 000 000	324 760	342 803	371 941	401 983	429 811	10.8	5.6	8.5	8.1	6.9	7.3
Per capita personal income	$	13 185	13 776	14 804	15 851	16 795	9.5	4.5	7.5	7.1	6.0	6.2
Total capital expenditures	$ 000 000	76 761	73 519	75 378	90 504	95 708	– 3.6	– 4.2	2.5	20.1	5.7	5.7
— manufacturing sector	$ 000 000	11 493	8 858	8 887	11 516	13 910	– 9.8	– 22.9	0.3	29.6	20.8	4.9
Value of shipments												
— manufacturing industries	$ 000 000	187 409	202 974	227 938	244 110	249 478	– 1.8	8.3	12.3	7.1	2.2	7.4
Retail sales	$ 000 000	97 638	106 243	116 080	129 446	139 705	3.5	8.8	9.3	11.5	7.9	9.4
Consumer price index	1981 = 100	110.8	117.2	122.3	127.1	132.4	10.8	5.8	4.3	4.0	4.2	4.6
Population (June 1)	'000	24 632	24 885	25 124	25 360	25 591	1.2	1.0	1.0	0.9	0.9	1.0
Labour force	'000	11 958	12 183	12 399	12 639	12 870	0.5	1.9	1.8	1.9	1.8	1.9
Employment	'000	10 644	10 734	11 000	11 311	11 634	– 3.3	0.8	2.5	2.8	2.9	2.2
Unemployment rate	%	11.0	11.9	11.3	10.5	9.6	—	—	—	—	—	—

[1] Preliminary data.

[2] Annual compound rate.

Sources: National Income and Expenditure Accounts, S.C., 13-001, Gross Domestic Product by Industry, S.C., 61-005, Private and Public Investment in Canada, S.C., 61-205, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C., 62-001, Estimates of Population for Canada and the Provinces, S.C., 91-201, The Labour Force, S.C., 71-001.

ECONOMIC INDICATORS
QUÉBEC

	Unit of measurement	1982	1983	1984	1985	1986[1]	82-81	83-82	84-83	85-84	86-85	86-82[2]
							%	%	%	%	%	%
Gross domestic product	$ 000 000	84 009	90 432	97 631	104 758	111 777	5.0	7.6	8.0	7.3	6.7	7.4
Real domestic product	$ 000 000 81	67 561	69 828	73 584	76 832	79 390	– 4.4	3.4	5.4	4.4	3.3	4.1
Per capita real domestic product	$ 81	10 426	10 726	11 243	11 672	11 979	– 5.0	2.9	4.8	3.8	2.6	3.5
Personal income	$ 000 000	77 761	81 641	88 218	94 834	100 904	8.9	5.0	8.1	7.5	6.4	6.7
Per capita personal income	$	12 001	12 541	13 479	14 406	15 226	8.2	4.5	7.5	6.9	5.7	6.1
Total capital expenditures	$ 000 000	13 097	13 947	15 748	19 240	20 862	– 4.7	6.5	12.9	22.2	8.4	12.3
— manufacturing sector	$ 000 000	2 160	2 088	2 751	3 395	3 636	– 5.0	– 3.3	31.8	23.4	7.1	13.9
Value of shipments												
— manufacturing industries	$ 000 000	48 762	52 049	56 737	59 559	60 729	– 3.0	6.7	9.0	5.0	2.0	5.6
Retail sales	$ 000 000	23 497	25 784	29 006	31 782	34 685	3.6	9.7	12.5	9.6	9.1	10.2
Consumer price index	1981 = 100	111.6	117.8	122.7	128.1	134.3	11.5	5.6	4.2	4.4	4.9	4.8
Population (June 1)	'000	6 480	6 510	6 545	6 583	6 627	0.6	0.5	0.5	0.6	0.7	0.6
Labour force	'000	2 998	3 069	3 123	3 181	3 221	– 1.4	2.4	1.8	1.9	1.3	1.8
Employment	'000	2 584	2 642	2 722	2 804	2 866	– 5.2	2.2	3.0	3.0	2.2	2.6
Unemployment rate	%	13.8	13.9	12.8	11.8	11.0	—	—	—	—	—	—

[1] Preliminary data.

[2] Annual compound rate.

Sources: Provincial Economic Accounts, S.C., 13-213, Conference Board of Canada, National Income and Expenditure Accounts, S.C. 13-001, Private and Public Investment in Canada, S.C., 61-205, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C. 62-001, Estimates of Population for Canada and the Provinces, S.C., 91-201, The Labour Force, S.C., 71-001.

APPENDIX E

The Government's Financial Position and Borrowings in the Public Sector

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Analysis of the government's financial transactions is based on the data determined according to accounting policies in effect for the 1986-1987 fiscal year. The data given in the historical tables have, for purposes of comparison, been adjusted on the basis of the budgetary and financial structure that will prevail in 1987-1988.

The government's financial transactions

Deficit

Preliminary results of the government's financial transactions for the year ending March 31, 1987 show that the deficit in budgetary transactions remains at the $2 895 000 000 level forecast in the Budget Speech of May 1, 1986, as compared with $3 440 300 000 for 1985-1986. Budgetary revenue and expenditure are as initially forecast, i.e. $25 585 000 000 and $28 480 000 000 respectively.

Net financial requirements

Net financial requirements were $1 750 000 000, an increase of $70 000 000 over the original estimate. This change is attributable to a drop in the anticipated surplus of non-budgetary transactions, which totalled $1 145 000 000. This drop was the result of an increase in financial requirements for investments, loans and advances, which was partially offset by an improvement in the variation in other non-budgetary accounts as well as by the source of financing recorded following the creation, during the year, of a provision for financing the water purification program.

Financing

With respect to financing, the variation in the long-term debt amounted to $1 840 800 000, an increase of $240 800 000 over that forecast in the Budget Speech. This variation, combined with the rise in net financial requirements, led to a $90 800 000 increase in the government's cash position in 1986-1987, whereas the initial forecast was a reduction of $80 000 000.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
SUMMARY
(in millions of dollars)

	1985-1986		1986-1987				
				Budget Speech 1986-05-01		Preliminary results[1]	Changes
1. Budgetary transactions							
Revenue	+ 24 270.0		+ 25 585.0		+25 585.0		—
Expenditure	− 27 710.3		− 28 480.0		−28 480.0		—
Deficit		−3 440.3		+2 895.0		+2 895.0	—
2. Non-budgetary transactions							
Investments, loans and advances	+ 132.9		+ 150.0		− 401.0		− 551.0
Retirement plans account	+ 1 269.0		+ 1 365.0		+ 1 353.0		− 12.0
Provision for financing the water purification program	—		—		+ 9.0		+ 9.0
Other accounts	+ 298.5		− 300.0		+ 184.0		+ 484.0
Balance		+1 700.4		+1 215.0		+1 145.0	− 70.0
3. Net financial requirements		−1 739.9		−1 680.0		−1 750.0	− 70.0
4. Financing							
Change in cash position	− 18.1		+ 80.0		− 90.8		− 170.8
Change in long-term debt	+ 1 758.0		+ 1 600.0		+ 1 840.8		+ 240.8
Total		**+1 739.9**		**+1 680.0**		**+1 750.0**	**+ 70.0**

N.B.: A (−) sign indicates a financial requirement and a (+) sign, a source of financing. For the change in cash position, a (−) sign indicates an increase and a (+) sign, a decrease.

[1] The financial data for 1986-1987 shown in this table are based on results recorded from April 1986 to February 1987, and on an estimate, as at April 24, 1987, of revenue and expenditure to be posted on [illegible]987 transactions up to the closing of the books, in keeping with the accounting policies in effect.

Budgetary revenue

Increase in own-source revenue

For the 1986-1987 fiscal year, budgetary revenue totalled $25 585 000 000, a 5.4% increase compared with 8.5% the previous year. The growth in own-source revenue was 9.5%, while federal transfers dropped by 6.1%. Own-source revenue was $375 000 000 higher than forecast in the Budget Speech of May 1, 1986, while federal government transfers decreased by the same amount.

SUMMARY OF THE EVOLUTION OF OWN-SOURCE REVENUE

	1985-1986	1986-1987			
		Budget Speech 1986-05-01	Preliminary results	Changes compared to budget	Changes compared to 1985-1986
			(in millions of dollars)		(%)
Personal income tax	7 966.4	8 108.0	8 393.0	285.0	5.4
Tobacco tax	534.8	606.0	562.0	– 44.0	5.1
Société des alcools du Québec	356.8	400.0	361.0	– 39.0	1.2
Hydro-Québec	209.0	133.0	303.0	170.0	45.0
Other government corporations	55.0	140.0	90.0	– 50.0	63.6
Other	8 829.8	9 888.0	9 941.0	53.0	12.6
Total own-source revenue	**17 951.8**	**19 275.0**	**19 650.0**	**375.0**	**9.5**

In the Budget Speech, revenue from personal income tax was estimated on the assumption that taxpayers subject to deductions at source would complete the TPD 1 form as of April 1986, so as to take advantage of all the new exemptions and deductions to which the tax changes entitled them. Analysis of the evolution of receipts during the fiscal year indicated, on the contrary, that many taxpayers preferred to wait until they filed their income tax returns. This resulted in higher deductions at source and higher revenue than anticipated in 1986-1987, and consequently larger refunds in 1987-1988.

Hydro-Québec's net earnings

Hydro-Québec's net earnings rose by $170 000 000. This change was the result mainly of a greater demand for electricity than expected .

Revenue from privatization

Revenue from "other government corporations" was estimated at $140 000 000 in the Budget Speech, reflecting anticipated profits of $175 000 000 from privatization transactions and a net loss of $35 000 000 arising from the operating results to be consolidated of government corporations other than the Société des alcools du Québec, Loto-Québec and Hydro-Québec. As a result of certain changes in the privatization schedule, revenue for 1986-1987 was revised downward to $29 000 000. Net profits to be consolidated of "other government corporations" are now estimated at $61 000 000.

The fall in cigarette sales was greater than anticipated in the Budget Speech, leading to a $44 000 000 decrease in the expected yield from the tobacco tax. In addition, the lower than anticipated increase in sales by the Société des alcools du Québec and the less rapid than expected implementation of certain administrative measures resulted in a reduction of $39 000 000 in the Société's net earnings.

SUMMARY OF THE EVOLUTION OF TRANSFERS FROM THE GOVERNMENT OF CANADA

	1985-1986	1986-1987			
		Budget Speech 1986-05-01	Preliminary results	Changes compared to budget	Changes compared to 1985-1986
			(in millions of dollars)		(%)
Equalization	2 854.1	2 825.0	2 748.0	− 77.0	− 3.7
Other transfers related to the fiscal arrangements	1 941.7	1 911.0	1 822.0	− 89.0	− 6.2
Contributions to welfare programs	1 198.3	1 213.0	1 108.0	−105.0	− 7.5
Other programs	324.1	361.0	257.0	−104.0	− 20.7
Total Government of Canada transfers	**6 318.2**	**6 310.0**	**5 935.0**	**−375.0**	**− 6.1**

Drop in federal transfers

There was a significant drop of $375 000 000 in federal transfers in relation to the forecast in the Budget Speech. All programs were affected to a considerable extent by the reduction.

Equalization payments totalled $2 748 000 000, $77 000 000 less than had been anticipated in May 1986. This decrease reflects changes made in the many data used in calculating these payments, both for advances for the current year and for adjustments for previous years.

The downward revision of $89 000 000 in other transfers related to the fiscal arrangements originates from payments that were lower than anticipated for the financing of health and post-secondary education programs. This is basically the result of the federal government's using higher federal tax basis points in calculating the financial transfer related to this program than were used in determining the Budget Speech forecast.

With regard to the contributions to welfare programs, the negative differential of $105 000 000 is due mainly to lower shareable costs, resulting primarily from a substantial reduction in the number of social aid recipients, to the federal government's refusal to share certain expenses incurred by Québec, particularly for young delinquents, and to the revision of the basic federal tax, which increased the tax abatement applicable to Québec, proportionately reducing the financial transfer under this heading.

Finally, the reduction of $104 000 000 for other programs can be explained principally by the putting off of the signing of an agreement with the federal government on cost-sharing in connection with the application of the Young Offenders Act and by the revision of expenses incurred under the shared-cost programs.

Budgetary expenditure

Preliminary figures indicate, as forecast in the Budget Speech, a budgetary expenditure of $28 480 000 000 for the 1986-1987 fiscal year, an increase of 2.8% compared with 5.9% the preceding year.

SUMMARY OF THE EVOLUTION OF EXPENDITURE
(in millions of dollars)

	1986-1987		
	Budget Speech 1986-05-01	Preliminary results	Changes
Initial estimates	28 750.0	28 750.0	–
Plus:			
Supplementary estimates of June 18, 1986	28.0[1]	28.2	0.2
Supplementary estimates of December 18, 1986	88.0[1]	243.9	155.9
Supplementary estimates authorized under specific legislative provisions		7.5	7.5
Overexpenditure on permanent appropriations		90.5	90.5
Less:			
Transfers of budget appropriations to investments, loans and advances	—	– 20.1	– 20.1
Lapsed appropriations	– 386.0[2]	– 620.0	– 234.0
Total 1986-1987 expenditure	28 480.0	28 480.0	—
Total 1985-1986 expenditure		27 710.3	
% Change		2.8	

[1] Additional expenditures announced in the Budget Speech

[2] Lapsed appropriations announced in the Budget Speech

Unexpended appropriations have therefore entirely offset the additional expenditures arising from the supplementary appropriations voted during the year, and of overruns of $90 500 000 on permanent appropriations, including $15 700 000 for servicing the public debt.

Supplementary appropriations

In addition to funding the additional expenditures of $116 000 000 announced in the Budget Speech, the supplementary appropriations were intended to offset the budgetary overruns for certain expenditure programs and to ensure implementation of the new measures adopted during the year. The measures announced last May 1 mainly concerned the regional development fund, municipal roads, tourist publicity and aid for young farmers. Also announced was an increase in certain expenditures because of revised economic parameters, an increase in government contributions to the health services fund, and additional expenditures related to the activities of certain government corporations.

Among the supplementary appropriations authorized during the year were $20 300 000 for servicing the public debt, required primarily as a result of increased use of temporary financing and the depreciation of the Canadian dollar, compared to initial hypotheses, in relation to certain currencies in which government borrowings are denominated.

Moreover, $56 700 000 in additional appropriations were authorized for services insured by the Régie de l'assurance-maladie du Québec, $17 644 000 for the government's contribution to the farm income stabilization insurance program, and $30 000 000 more than originally anticipated for the allowance for bad debts at year's end.

The final cost of collective bargaining with public and parapublic sector employees was $164 500 000 more than expected. This overrun was financed by reorganizing budgetary packages already authorized, and no additional appropriations were required.

Lapsed appropriations

Unexpended appropriations totalled $640 100 000, including $20 100 000 that were transferred to investments, loans and advances. Among the principal components of lapsed appropriations was the $80 000 000 decrease in expenditures for the social aid program, mainly the result of a drop in the number of recipients and a higher than anticipated recovery of overpayments to recipients. The accounting changes announced in the last Budget Speech concerning treatment of accounts payable which were not entered in preceding years generated lapsed appropriations of $153 000 000 with regard to accumulated deficits in the health and education networks, while there were lapsed appropriations of $52 400 000 for employer contributions to the retirement plans following a drop in employee contributions and a reduction in the interest rate applicable to the balance of the retirement plans account.

Finally, the amount of the regular lapsed appropriations of various departments explains the balance of lapsed appropriations, which settled at $334 600 000, or 1.2% of total authorized appropriations, a proportion comparable to that of the last few years.

Non-budgetary transactions

Decrease in the non-budgetary surplus

The surplus of non-budgetary transactions totals $1 145 000 000 in the preliminary figures, compared to $1 215 000 000 forecast in the Budget Speech last May. This shortfall of $70 000 000 reflects mainly additional financial requirements of $551 000 000 for investments, loans and advances, partially offset by an increase of $484 000 000 in other non-budgetary accounts.

SUMMARY OF NON-BUDGETARY TRANSACTIONS, 1986-1987
(in millions of dollars)

	Budget Speech 1986-05-01	Preliminary results	Changes
1. Investments, loans and advances			
Enterprises of the gouvernement du Québec			
☐ Share capital and invested capital	+ 25.5	− 480.6	− 506.1
☐ Loans and advances	+ 135.1	+ 128.9	− 6.2
Subtotal	+ 160.6	− 351.7	− 512.3
Loans and advances to municipalities, municipal agencies, individuals, corporations and others	− 10.6	− 49.3	− 38.7
Total investments, loans and advances	+ 150.0	− 401.0	− 551.0
2. Retirement plans account	+1 365.0	+ 1353.0	− 12.0
3. Provision for financing the water purification program	—	+ 9.0	+ 9.0
4. Other accounts	− 300.0	+ 184.0	+ 484.0
5. Balance	+1 215.0	+1 145.0	− 70.0

N.B.: A (−) sign indicates a financial requirement and a (+) sign, a source of financing.

Investments, loans and advances

The variation of $506 100 000 recorded for investments in the form of share capital and other capital invested in government enterprises is attributed in particular to an upward revision of $296 000 000 in the net profits of government corporations, which are consolidated into the government's budgetary revenue, with a corresponding reevaluation of its investments in these corporations, and by the delay of certain privatization transactions, for which $250 000 000 in non-budgetary receipts were forecast in the Budget Speech.

The government recovered $6 200 000 less than originally anticipated in loans and advances to government enterprises. Loans and advances to municipalities, municipal agencies, individuals, corporations and others are $38 700 000 more than forecast in the Budget Speech, reflecting mainly the purchase of a $40 000 000 debenture upon selling the assets of the Raffinerie de sucre du Québec to Sucre Lantic Ltée.

The surplus in the retirement plans account amounts to $1 353 000 000, $12 000 000 less than announced in the Budget Speech. The creation during the fiscal year of a provision for financing the water purification program generated a $9 000 000 source of financing in non-budgetary transactions, with an equivalent amount charged to budgetary expenditure. This non-budgetary account will receive annual contributions from the government, to be used to repay the capital on long-term borrowings by the Société québécoise d'assainissement des eaux, as they mature.

The transactions related to other non-budgetary accounts essentially represent the year-to-year changes in the accounts and accrued interest payable and receivable by the government. Such accounts normally change in accordance with the overall volume of financial transactions; however, they may be subject to significant variations which are difficult to forecast from year to year, since they depend basically on the coordination of collection and disbursement transactions. For the 1986-l987 fiscal year, the balance of other accounts shows a surplus of $184 000 000 compared to the $300 000 000 reduction forecast in the Budget Speech. This improvement is in large measure due to a $541 400 000 increase in accounts payable, resulting in particular from the tardy settlement of collective agreements, which means that large amounts will be paid out in retroactivity and salary adjustments after March 31, 1987, contrary to what was anticipated in the Budget Speech. Moreover, accounts receivable and accrued interest payable amounted to $78 800 000 and $35 700 000 more than had been forecast.

Repayment of borrowings

Debt restructuring program

Repayments of borrowings for fiscal 1986-1987 amounted to $2 568 100 000 compared to $1 303 500 000 the preceding year. Repayments of borrowings are thus $1 318 100 000 higher than forecast in the Budget Speech. This variation is the result of two main factors. First, under the program to restructure the public debt, set up in 1986-1987, the government took advantage of reimbursement prior to maturity clauses to renegotiate $1 264 000 000 in borrowings under more advantageous conditions, extending the terms and reducing the overall risk for its debt portfolio. The initial forecast was increased by $62 000 000 to reflect the new method of converting the foreign currency debt, under which the public debt is shown in the government's books at current rates of exchange rather than at the rates of exchange in effect at the time the borrowings were made.

Redemptions of savings bonds in 1986-1987 are estimated at $500 300 000; savings bonds outstanding at March 31, 1987 amounted to $2 804 300 000.

TOTAL SAVINGS BONDS OUTSTANDING
(In millions of dollars)

Total outstanding as at March 31, 1986		2 729.6
Plus: 1985 issue	1.5[1]	
1986 issue	573.5[2]	
		575.0
Less: Redemptions		500.3
Total outstanding as at March 31, 1987		**2 804.3**

[1] Amount received after March 31, 1986, from the issue of $ 657 817 000.
[2] Amount received as at March 31, 1987, from the issue of $ 575 000 000.

Financing

Government borrowings

The Québec government borrowed $4 395 800 000 in fiscal 1986-1987, an increase of $1 403 300 000 over 1985-1986. The sums borrowed cover gross borrowing requirements of $3 131 800 000, including $100 000 000 borrowed in advance from the borrowing program planned for 1987-1988, and $1 264 000 000 in optional refinancing transactions carried out by the government in order to restructure the composition of its debt. The increase in amounts borrowed compared to the preceding year is not related to an increase in net financial requirements, since these rose by only $10 100 000 over 1985-1986 figures, to $1 750 000 000.

The following table gives a summary of borrowings in 1986-1987. It will be noted that, for current gross borrowings, the proportion denominated in Canadian dollars, i.e. 74.6%, is similar to that observed in past years. On the other hand, a significant proportion of the refinancing was in foreign currency; since the new borrowings replaced borrowings already denominated in foreign currency, they did not increase the overall currency risk of the debt, but did increase its average term and diminish its vulnerability to fluctuations in interest rates.

SUMMARY OF BORROWINGS

Market and currency	Gross borrowing requirements		Optional refinancing	
	(millions $)	(%)	(millions $)	(%)
Canadian dollars				
Canadian market				
Public issues:				
Savings bonds	575.0	18.4		
Negotiable bonds	450.0	14.4		
Private issues:				
Caisse de dépôt et placement du Québec	900.0	28.7		
Other private borrowings	33.8	1.0		
Eurodollar market	150.0	4.8		
Asian market (private borrowing)	227.0	7.3	50.0	4.0
Total	2 335.8	74.6	50.0	4.0
U.S. dollars				
U.S. market			414.4	32.8
Eurodollar market				
Fixed rate	351.3	11.2		
Floating rate			417.4	33.0
Total	351.3	11.2	831.8	65.8
Other currencies				
French Eurofranc market	157.9	5.0		
Swiss franc market			205.0	16.2
Euroyen market	161.5	5.2		
Syndicate borrowings in yen	125.3	4.0	177.2	14.0
Total	444.7	14.2	382.2	30.2
Grand total	**3 131.8**	**100.0**	**1 264.0**	**100.0**

Because of the interest rate situation and outlook, in 1986-1987, the gouvernement du Québec undertook to modify its debt structure. This operation was carried out, primarily, by repaying part of the debt bearing interest at floating rates in American dollars, to refinance it at fixed rates. Repayment of part of the Treasury bills outstanding and a relatively modest savings bond campaign also helped reduce the part of the government's debt bearing interest at floating rates.

The significant changes in the rate of exchange during the year led the government to reduce the proportion of its debt in American dollars, in favour of the yen and the Swiss franc, through refinancing operations and currency exchange contracts.

Refinancing

Québec also took advantage of its option to recall various current borrowings in order to repay them prior to maturity and refinance them at substantially lower interest rates. This was the case in particular for three borrowings undertaken on the Canadian Eurodollar market in the early 1980s, that carried interest coupons for 18%, 17.5% and 16.75%.

The gouvernement du Québec increased the volume of its borrowings on various markets during the 1986-1987 fiscal year, in particular on the Canadian, American Eurodollar and Swiss franc markets. This was possible thanks to a greater internationalization of markets and to the improvement in Québec's credit standing in the eyes of investors.

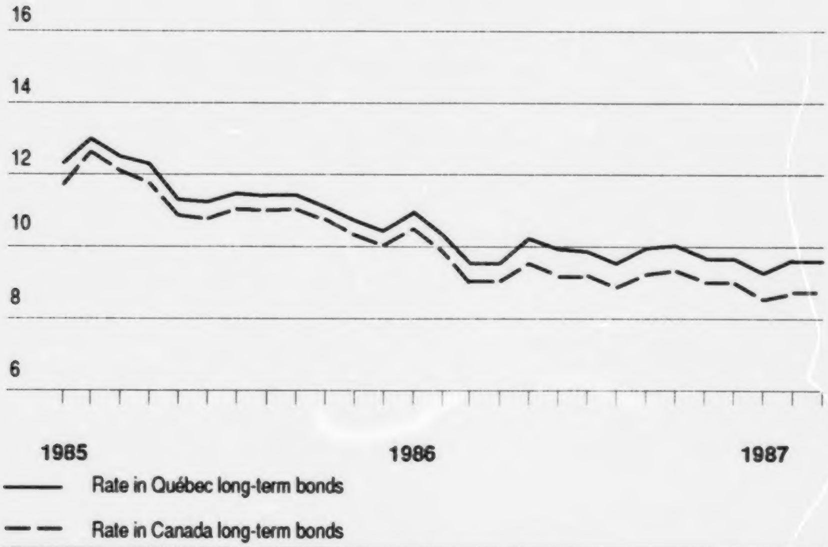
Average term of borrowings made

The average term of borrowings made during the year, excluding new Québec savings bonds, is close to 20 years. This was possible because Québec was able, for the first time, to obtain 40-year terms on the American market, 30-year terms on the American Eurodollar market and 23-year terms on the Japanese syndicate market. In addition, for the first time since 1972, Québec turned to the French Eurofranc market and obtained borrowings with 15-year terms, the longest ever granted on that market.

Yield spread

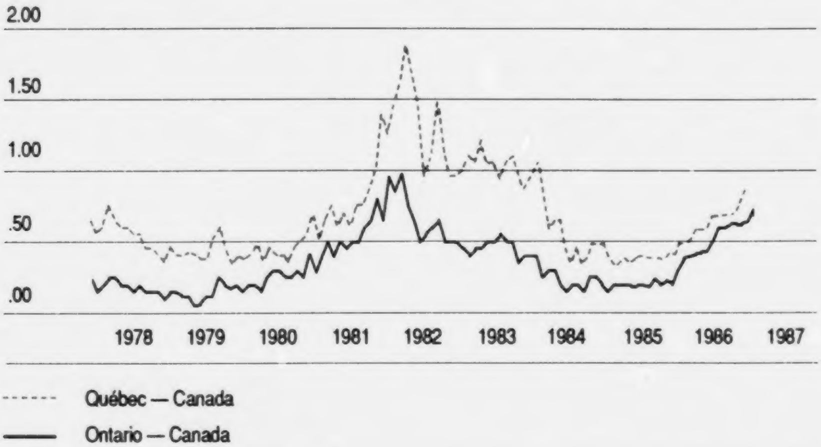
Finally, throughout the world, the last few months have witnessed widening spreads between the market price to certain borrowers and the price to "safe" borrowers. This phenomenon has reached Canada and affected the cost of borrowings for all provinces, including Québec.

YIELD ON QUÉBEC AND CANADA LONG-TERM SECURITIES 1985, 1986 AND 1987 (as a percentage)



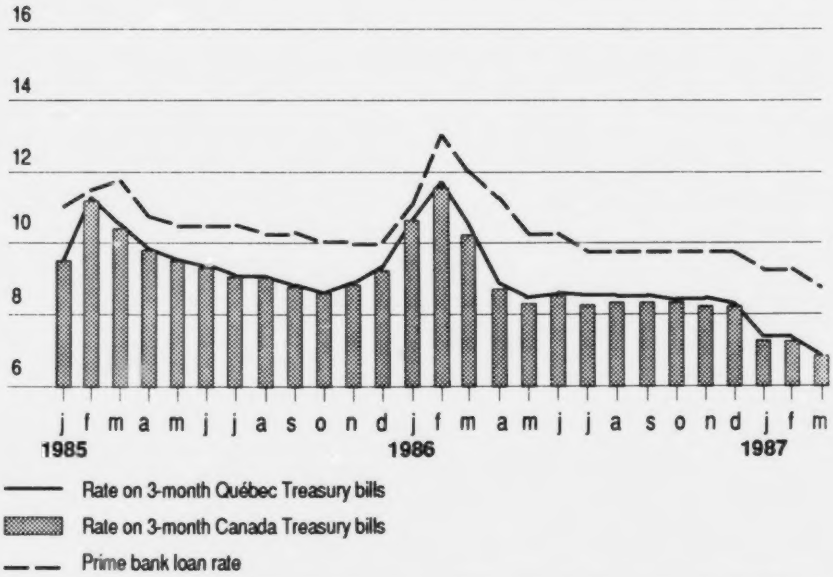
Sources: Bank of Canada, Dominion Securities Inc., Ministère des Finances du Québec.

YIELD SPREAD ON QUÉBEC LONG-TERM SECURITIES AND OTHER SECURITIES
(in percentage points)



Sources: Bank of Canada, Dominion Securities Inc.

YIELD ON SHORT-TERM SECURITIES 1985, 1986 AND 1987
(as a percentage)



Sources: Bank of Canada, Ministère des Finances du Québec.

The debt

The Québec government's debt, including total outstanding Treasury bills, stood at $25 976 000 000 as at March 31, 1987. The proportion of the total debt in Canadian dollars declined slightly in 1986-1987, from 67.4% to 66.4%, while that in foreign currencies reached 33.6%. During the same period, the proportion of the debt at fixed rates rose from 76.2% to 81.4%; that at floating rates was 18.6% at the end of the fiscal year.

Effect of exchange contracts

However, certain interest rate and currency exchange transactions, related to the servicing of borrowings and made by the government over the past few years, have enabled the government to alter the structure of its debt commitments. In this way, the share of the government's commitments to be met in Canadian dollars for the repayment of its debt was increased to 67.5% of its total debt while the proportion of its commitments bearing interest at fixed rates was increased to 81.7%.

Average term of the debt

Moreover, new borrowings undertaken in 1986-1987 were secured for longer terms than those on the total debt as at March 31, 1986. As a result, the average term of the government's debt, excluding savings bonds and Treasury bills, rose to 11.5 years as at March 31, 1987. Total savings bonds outstanding as at the same date amounted to $2 804 300 000, or 10.8% of the government's total debt. Total Treasury bills outstanding dropped to $1 555 000 000, representing 6% of the total debt at year's end.

GOVERNMENT DEBT
ESTIMATE AS AT MARCH 31, 1987

	Before exchange transactions		After exchange transactions	
Currency of issue	**Millions of dollars**	**Proportion of total (%)**	**Millions of dollars**	**Proportion of total (%)**
Canadian dollars	17 247	66.4	17 534	67.5
U.S. dollars	4 557	17.5	4 360	16.8
Japanese yen	1 729	6.7	1 729	6.7
German marks	1 075	4.1	952	3.7
Swiss francs	689	2.7	839	3.2
Pounds sterling	306	1.2	233	0.9
French francs	189	0.7	186	0.7
ECUs	80	0.3	80	0.3
European units of account	63	0.2	63	0.2
Dutch guilders	41	0.2	—	—
	25 976	**100.0**	**25 976**	**100.0**

Note: The debt in foreign currency is expressed in the Canadian equivalent, at the exchange rates effective at March 31, 1987, except for borrowings under currency exchange contracts which are expressed at the exchange rates specified in the contracts.

Public sector borrowings and investments

Public sector borrowings

During the 1986 calendar year, gross long-term borrowings in the public sector totalled $9 661 000 000, an increase of $1 417 000 000 in relation to the preceding year. This increase in gross borrowings is attributable to the gouvernement du Québec, which carried out a significant amount of refinancing, and to Hydro-Québec.

LONG-TERM PUBLIC SECTOR BORROWINGS
(in millions of dollars)

						Calendar year
	1981	1982	1983	1984	1985	1986[1]
Gross borrowings						
Government[2]	2 336	2 840	2 407	3 209	3 015	4 092
Educational institutions[3]	131	244	421	791	688	668
Health and welfare institutions	139	233	92	134	212	148
Hydro-Québec[2]	2 257	2 276	1 792	1 100	1 602	2 199
Other government corporations[3]	449	329	502	599	1 397	1 103
Municipal agencies	1 045	1 084	938	1 201	1 330	1 451
Total	**6 357**	**7 006**	**6 152**	**7 034**	**8 244**	**9 661**
Repayments	**2 269**	**2 054**	**2 267**	**3 470**	**4 007**	**5 242**
Net borrowings	**4 088**	**4 952**	**3 885**	**3 564**	**4 237**	**4 419**

[1] Preliminary results.

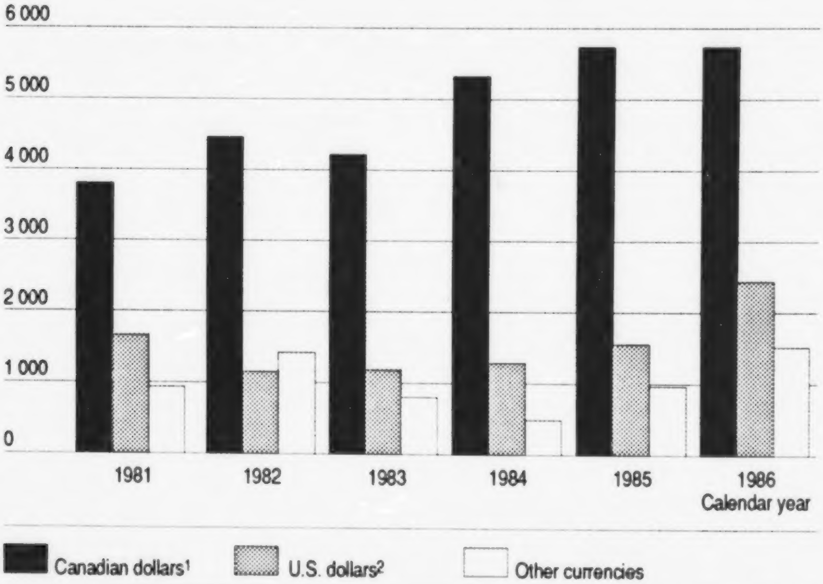
[2] Amounts received during the calendar year, excluding less-than-one-year net borrowings as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text.

[3] Including all the universities in Québec, while B.S.Q. statistics consider only the Université du Québec.

Source: Ministère des Finances du Québec.

Gross borrowings in Canadian dollars totalled $5 728 000 000 in 1986, which represents 60% of total public sector borrowings. Gross borrowings in American dollars reached $2 441 000 000, or 25% of total gross borrowings; borrowings in other currencies amounted to $1 492 000 000, or 15% of the total.

GROSS PUBLIC SECTOR BORROWINGS BY CURRENCY
(in millions of dollars)



[1] Including borrowings on the Euromarket denominated in Canadian dollars in the amount of $250 000 000 in 1981, $896 000 000 in 1982, $262 000 000 in 1983, $513 000 000 in 1984, $868 000 000 in 1985 and $599 000 000 in 1986.

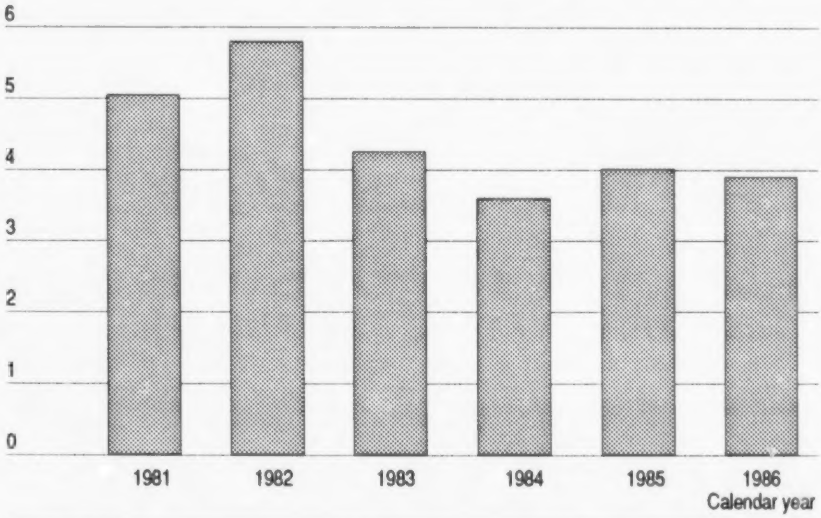
[2] Including borrowings on the Euromarket denominated in U.S. dollars in the amount of $795 000 000 in 1981, $442 000 000 in 1982, $255 000 000 in 1983, $818 000 000 in 1984, $828 000 000 in 1985 and $2 106 000 000 in 1986.

Source: Ministère des Finances du Québec.

Moreover, taking into account refinancing and repayments, net public sector borrowings totalled $4 419 000 000 in 1986. The ratio between net borrowings and gross domestic product was 3.9% in 1986, less than the average for the five preceding years.

NET PUBLIC SECTOR BORROWINGS COMPARED TO GROSS DOMESTIC PRODUCT

(as a percentage)



Source: Ministère des Finances du Québec.

PUBLIC SECTOR INVESTMENTS
(in millions of dollars)

	Calendar year					
	1981	**1982**	**1983**	**1984**	**1985**	**1986[1]**
Government[2]	802	712	742	847	830	775
Educational institutions[3]	215	224	289	298	321	283
Health and welfare institutions[3]	166	148	182	164	248	261
Hydro-Québec[4]	2 668	2 546	2 248	1 681	1 615	1 536
Other government corporations[5]	374	342	369	313	676	572
Municipal agencies[6]	961	902	953	1 130	1 769	1 606
	5 186	**4 874**	**4 783**	**4 433**	**5 459**	**5 033**

[1] Preliminary results.

[2] Government investments include its capital expenditures as well as grants and loans for investments made available to economic agents outside the public sector. Financial investments within the public sector are excluded.

Sources: The Estimates and the Public Accounts.

[3] Investments by school boards, colleges and universities and health and welfare institutions include only capital expenditures for new projects, as defined for the purposes of economic accounting.

Source: Bureau de la statistique du Québec.

[4] Source: Hydro-Québec.

[5] Government corporation investments correspond to an increase in long-term assets. Investments of the Société québécoise d'assainissement des eaux are included under "municipal agencies".

Source: Financial statements of government corporations.

[6] Investments by municipalities, urban and regional communities and transport commissions and corporations include only capital expenditures for new projects, as defined for the purposes of economic accounting.

Source: Ministère des Finances du Québec

Public sector investments

In 1986, public sector investments totalled $ 5 033 000 000, a decrease of 7.8% compared to 1985. As the preceding table indicates, this decrease is general throughout the public sector; only health and welfare institutions increased their investments during the year.

In order to take into account the interrelationships between the government's financial policy and the state of the various sectors under its jurisdiction, comparative changes in borrowings and investments must take into consideration the situation of the public sector as a whole. Total net public sector borrowings include, in addition to the net long-term borrowings mentioned earlier, less-than-one-year net borrowings made as long-term financing transactions, including Treasury bills issued by the government, as well as borrowings from the government's retirement plans account.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR (in millions of dollars)

	Calendar year					
	1981	1982	1983	1984	1985	1986[1]
Net long-term borrowings	4 088	4 952	3 885	3 564	4 237	4 419
Less-than-one-year net borrowings made as long-term financing transactions	395	309	636	– 20	506	– 561
Surplus in the government retirement plans account	961	1 040	1 055	1 152	1 248	1 333
Total net borrowings	5 444	6 301	5 576	4 696	5 991	5 191
Investments	5 186	4 874	4 783	4 433	5 459	5 033
Ratio	1.05	1.29	1.17	1.06	1.10	1.03

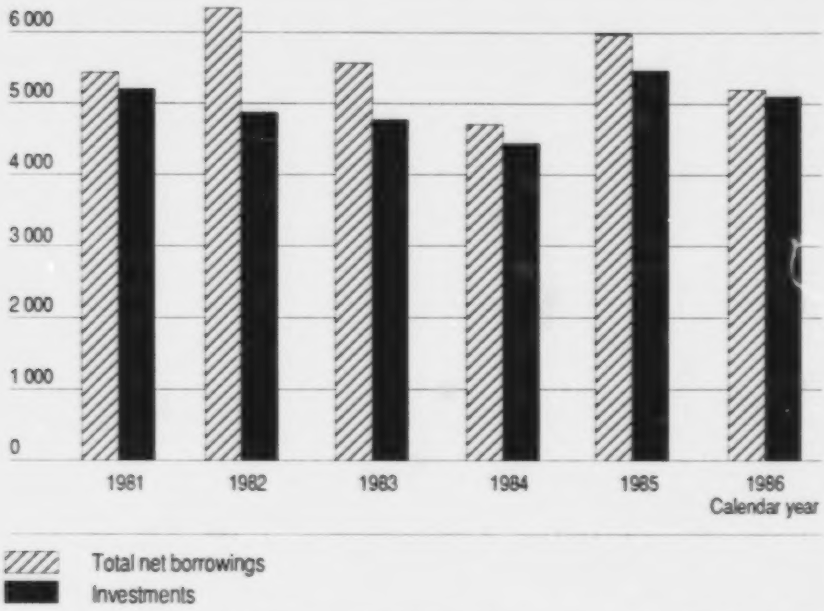
[1] Preliminary results.

Source: Ministère des Finances du Québec.

Ratio of total net borrowings to investments

Total net public sector borrowings in 1986 are estimated at $5 191 000 000, a decrease of $800 000 000 compared to 1985. Thus, the ratio of total net borrowings to investments was 1.03 in 1986, the lowest ratio recorded for the period in question.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(In millions of dollars)



Source: Ministère des Finances du Québec.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
SUMMARY
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	Preliminary results 1986-1987[1]
1. Budgetary transactions					
Revenue	+ 19 841.5	+ 21 937.2	+ 22 369.6	+ 24 270.0	+ 25 585.0
Expenditure	− 22 260.5	− 24 038.0	− 26 165.3	− 27 710.3	− 28 480.0
Deficit	− 2 419.0	− 2 100.8	− 3 795.7	− 3 440.3	− 2 895.0
2. Non-budgetary transactions					
Investments, loans and advances	− 761.1	− 671.7	− 167.4	+ 132.9	− 401.0
Retirement plans account	+ 1 051.2	+ 1 056.7	+ 1 183.5	+ 1 269.0	+ 1 353.0
Provision for financing the water purification program	—	—	—	—	+ 9.0
Other accounts	− 107.9	− 535.4	+ 766.4	+ 298.5	+ 184.0
Balance	+ 182.2	− 150.4	+ 1 782.5	+ 1 700.4	+ 1 145.0
3. Net financial requirements	− 2 236.8	− 2 251.2	− 2 013.2	− 1 739.9	− 1 750.0
4. Financing					
Change in cash position	− 75.5	− 13.7	− 211.0	− 18.1	− 90.8
Change in long-term debt	+ 2 312.3	+ 2 264.9	+ 2 224.2	+ 1 758.0	+ 1 840.8
Total	**+ 2 236.8**	**+ 2 251.2**	**+ 2 013.2**	**+ 1 739.9**	**+ 1 750.0**

Note: A (−) sign indicates a financial requirement and a (+) sign, a source of financing. For the change in cash position, a (−) sign indicates an increase and a (+) sign, a decrease. For comparison purposes, the financial data shown are based on the budgetary and financial structure in force for the 1987-1988 fiscal year.

[1] The financial data for 1986-1987 shown in this table are based on results recorded from April 1986 to February 1987, and on an estimate, as at April 24, 1987, of revenue and expenditure to be posted on 1986-1987 transactions up to the closing of the books, in keeping with the accounting policies in effect.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	Preliminary results 1986-1987
1. Income and property taxes					
Personal income tax	6 311.3	6 763.7	7 126.9	7 966.4	8 393.0
Employer contributions to health services fund	1 337.1	1 440.8	1 509.5	1 600.8	1 835.0
Corporate taxes[1]	898.4	860.3	996.4	1 082.0	1 218.0
Succession duties	45.0	46.7	45.1	30.5	7.0
	8 591.8	**9 111.5**	**9 677.9**	**10 679.7**	**11 453.0**
2. Consumption taxes					
Retail sales	1 936.7	2 277.4	2 575.1	3 175.7	3 612.0
Fuel	1 194.9	1 207.5	1 030.4	1 084.1	1 135.0
Tobacco	277.0	312.6	373.5	534.8	562.0
Meals and hotel	249.3	274.5	303.4	327.7	362.0
Other[2]	89.2	102.6	112.4	126.9	139.0
	3 747.1	**4 174.6**	**4 394.8**	**5 249.2**	**5 810.0**
3. Duties and permits					
Motor vehicles	285.4	259.6	273.3	283.9	318.0
Alcoholic beverages	58.8	65.0	67.2	70.1	75.0
Natural resources[3]	86.5	83.1	96.2	93.3	93.0
Pari-mutuel	31.5	31.1	29.7	26.4	26.0
Other	65.1	71.8	70.9	84.3	92.0
	527.3	**510.6**	**537.3**	**558.0**	**604.0**
4. Miscellaneous					
Sale of goods and services	217.7	301.2	226.5	210.2	254.0
Interest	294.7	277.5	270.2	214.9	262.0
Fines, confiscations and recoveries	95.5	108.5	92.7	116.3	158.0
	607.9	**687.2**	**589.4**	**541.4**	**674.0**
5. Revenue from government corporations[4]					
Société des alcools du Québec	286.7	321.8	340.5	356.8	361.0
Loto-Québec	163.4	223.1	252.9	302.7	355.0
Hydro-Québec	800.0	707.2	300.8	209.0	303.0
Other government corporations	(175.0)	(135.3)	(87.5)	55.0	90.0
	1 075.1	**1 116.8**	**806.7**	**923.5**	**1 109.0**
Total own-source revenue	**14 549.2**	**15 600.7**	**16 006.1**	**17 951.8**	**19 650.0**
6. Government of Canada transfers					
Equalization	3 071.9	3 227.4	3 101.6	2 854.1	2 748.0
Other transfers related to fiscal arrangements	1 101.3	1 720.8	1 833.4	1 941.7	1 822.0
Contributions to welfare programs	822.8	1 043.7	1 147.8	1 198.3	1 108.0
Other programs	296.3	344.6	280.7	324.1	257.0
Total Government of Canada transfers	**5 292.3**	**6 336.5**	**6 363.5**	**6 318.2**	**5 935.0**
Total budgetary revenue	**19 841.5**	**21 937.2**	**22 369.6**	**24 270.0**	**25 585.0**

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[1] Includes tax on corporate profits, on capital and the corresponding tax on premiums for insurance companies.

[2] Includes tax on telecommunications and on electronic advertising.

[3] Includes forest, mining and water resources.

[4] Includes the dividends declared and the change in surpluses or deficits accumulated by government corporations, which is consolidated with a corresponding reevaluation of the investment held by the government.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	Preliminary results 1986-1987
Affaires culturelles	141.3	154.5	178.8	205.7	193.8
Affaires municipales	648.9	712.2	687.8	714.9	726.7
Agriculture, Pêcheries et Alimentation	425.5	416.3	458.6	517.7	513.9
Approvisionnements et Services	46.5	45.7	173.7	61.1	61.7
Assemblée nationale	32.4	36.5	42.9	59.5	51.7
Commerce extérieur et Développement technologique	11.9	19.7	30.4	42.6	43.6
Communautés culturelles et Immigration	23.8	24.1	27.8	28.7	28.7
Communications	148.1	167.0	181.1	199.1	198.1
Conseil exécutif	23.3	25.5	37.0	47.2	34.3
Conseil du trésor	13.8	12.3	13.1	16.0	17.2
Éducation	4 085.8	4 211.9	4 403.4	4 581.4	4 719.7
Énergie et Ressources	247.6	284.0	347.6	360.3	367.6
Enseignement supérieur et Science	1 957.7	2 071.0	2 193.6	2 316.1	2 425.2
Environnement	111.4	123.5	141.4	190.0	252.3
Finances	1 989.3	2 143.3	2 511.5	2 761.8	2 807.9
Industrie et Commerce	126.0	258.4	327.1	326.2	316.5
Justice	226.9	241.9	257.4	321.3	332.3
Loisir, Chasse et Pêche	198.6	217.7	231.9	235.5	203.1
Main-d'oeuvre et Sécurité du revenu	2 020.1	2 429.6	2 608.9	2 862.8	2 908.5
Office de planification et de développement du Québec	28.0	44.3	52.8	46.8	38.9
Organisme relevant du ministre délégué à l'Administration	611.2	663.8	764.9	839.2	923.4
Organismes relevant de la ministre déléguée à la Condition féminine	42.7	50.3	56.3	73.4	82.8
Organismes relevant de la Vice-présidente du Conseil exécutif	142.2	154.7	162.1	175.7	182.3
Personnes désignées par l'Assemblée nationale	17.7	19.0	38.5	62.4	23.7
Régie de l'assurance-maladie du Québec	1 162.6	1 356.6	1 456.5	1 608.3	1 742.5
Relations internationales	42.5	45.7	51.5	62.0	57.2
Revenu	214.0	242.5	230.5	247.8	260.8
Santé et Services sociaux	5 204.5	5 443.2	5 951.3	6 198.8	6 601.3
Solliciteur général	394.4	411.1	450.3	508.8	507.0
Tourisme	31.2	40.0	68.6	75.9	68.9
Transports	1 451.4	1 578.4	1 619.3	1 660.8	1 595.4
Travail	64.8	68.8	72.9	65.5	55.2
Travaux publics et Approvisionnement	265.1	261.8	150.6	—	—
Subtotal	**22 151.2**	**23 975.3**	**25 980.1**	**27 473.3**	**28 342.2**
Allowance for bad debts	**109.3**	**61.1**	**122.4**	**88.9**	**129.0**
Allowance for losses on investments in share capital of government corporations	**—**	**1.6**	**62.8**	**148.1**	**8.8**
Total budgetary expenditure	**22 260.5**	**24 038.0**	**26 165.3**	**27 710.3**	**28 480.0**

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	Preliminary results 1986-1987
1. Investments, loans and advances					
ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC					
SHARE CAPITAL AND INVESTED CAPITAL					
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	—	—	- 0.5	- 18.8	- 27.0
Société générale de financement (SGF)	- 40.0	- 31.0	- 51.5	- 49.3	- 20.0
Société nationale de l'amiante (SNA)	- 12.2	- 10.7	- 35.0	- 35.3	- 28.3
Société québécoise d'exploration minière (SOQUEM)	—	- 10.0	- 11.6	—	—
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	- 5.0	- 6.4	- 5.4	- 4.0	—
Société québécoise d'initiatives pétrolières (SOQUIP)	- 26.5	- 30.0	- 39.9	—	- 10.0
Other	- 20.8	- 46.7	- 23.6	- 22.4	- 1.3
	- 104.5	**- 134.8**	**- 167.5**	**- 129.8**	**- 86.6**
Change in investment equity value[1]	- 631.1	- 510.0	+ 9.2	- 34.8	- 394.0
	- 735.6	**- 644.8**	**- 158.3**	**- 164.6**	**- 480.6**
LOANS AND ADVANCES					
Office du crédit agricole	+ 16.6	+ 12.1	+ 11.9	+ 160.5	—
Sidbec	- 10.1	- 12.5	- 36.8	+ 9.5	- 6.7
Société d'habitation du Québec (SHQ)	- 1.2	+ 6.7	+ 11.8	+ 1.5	+ 1.0
Société immobilière du Québec (SIQ)	—	—	—	+ 147.0	+ 155.0
Other	+ 0.2	- 14.2	+ 1.4	- 19.7	- 20.4
	+ 5.5	**- 7.9**	**- 11.7**	**+ 298.8**	**+ 128.9**
Total enterprises of the gouvernement du Québec	**- 730.1**	**- 652.7**	**- 170.0**	**+ 134.2**	**- 351.7**
MUNICIPALITIES AND MUNICIPAL AGENCIES	+ 1.6	+ 1.6	+ 1.5	+ 1.5	+ 0.4
INDIVIDUALS, CORPORATIONS AND OTHERS	- 32.6	- 20.6	+ 1.1	- 2.8	- 49.7
Total investments, loans and advances	**- 761.1**	**-671.7**	**- 167.4**	**+ 132.9**	**- 401.0**

[1] Net amount including the allowance for losses on investments in share capital of government corporations

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS (cont'd)
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	Preliminary results 1986-1987
2. Retirement plans account					
EMPLOYER AND EMPLOYEE CONTRIBUTIONS					
Contributions by the government as employer					
RREGOP					
Current service	+ 353.9	+ 302.2	+ 314.7	+ 318.1	+ 316.9
Interest	+ 259.6	+ 313.6	+ 379.4	+ 438.8	+ 492.1
Other plans					
Current service	+ 186.9	+ 172.0	+ 167.1	+ 164.0	+ 150.0
Past service	+ 246.5	+ 278.4	+ 337.0	+ 360.3	+ 386.7
Interest	+ 119.9	+ 166.7	+ 218.4	+ 267.1	+ 310.1
Total	**+ 1 166.8**	**+ 1 232.9**	**+ 1 416.6**	**+ 1 548.3**	**+ 1 655.8**
Independent agencies					
Current service	+ 7.7	+ 5.6	+ 4.9	+ 5.0	+ 5.1
Past service	+ 18.0	+ 17.0	+ 17.0	+ 17.0	+ 17.0
Total	**+ 25.7**	**+ 22.6**	**+ 21.9**	**+ 22.0**	**+ 22.1**
Employee contributions	+ 168.0	+ 160.4	+ 153.5	+ 148.9	+ 218.6
Total contributions	**+ 1 360.5**	**+ 1 415.9**	**+ 1 592.0**	**+1 719.2**	**+ 1 896.5**
BENEFITS AND OTHER PAYMENTS					
Benefits and refunds	– 287.8	– 340.2	– 389.6	– 433.2	– 511.7
Other outlays	– 21.5	– 19.0	– 18.9	– 17.0	– 31.8
Total	**– 309.3**	**– 359.2**	**– 408.5**	**– 450.2**	**– 543.5**
Total retirement plans account	**+ 1 051.2**	**+ 1 056.7**	**+ 1 183.5**	**+ 1 269.0**	**+ 1 353.0**
3. Provision for financing the water purification program	—	—	—	—	**+ 9.0**
4. Other accounts					
Cash and negotiable securities in hand and outstanding deposits	+ 4.2	– 21.2	– 15.4	+ 38.3	– 29.5
Outstanding cheques	+ 134.0	– 108.2	+ 89.2	+ 38.1	– 39.2
Clearing accounts for collected taxes	+ 4.0	– 6.0	+ 18.5	+ 38.5	+ 29.6
Accounts receivable	– 187.7	– 139.7	+ 18.6	– 154.0	– 172.8
Accrued interest receivable	– 0.3	+ 4.3	+ 1.0	+ 4.2	+ 1.3
Advances from the trust funds	+ 4.9	+ 2.8	+ 3.0	+ 1.9	– 2.5
Accounts payable	– 260.6	– 356.9	+ 473.0	+ 246.3	+ 271.4
Accrued interest payable	+ 193.6	+ 89.5	+ 178.5	+ 85.2	+ 125.7
Total other accounts	**– 107.9**	**– 535.4**	**+ 766.4**	**+ 298.5**	**+ 184.0**
Total non-budgetary transactions	**+ 182.2**	**– 150.4**	**+ 1 782.5**	**+ 1 700.4**	**+ 1 145.0**

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
FINANCING
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	Preliminary results 1986-1987
1. Change in cash position	− 75.5	− 13.7	− 211.0	− 18.1	− 90.8
2. Change in long-term debt[1]					
New borrowings	+ 2 761.8	+ 2 797.0	+ 3 281.0	+ 2 992.5	+ 4 395.8
Change in the debt resulting from the amortization of the change in foreign exchange	+ 23.4	+ 36.4	+ 43.1	+ 69.0	+ 13.1
Repayment of borrowings	− 472.9	− 568,5	− 1 099,9	− 1 303.5	− 2 568.1
Total change in long-term debt	**+ 2 312.3**	**+ 2 264.9**	**+ 2 224.2**	**+ 1 758.0**	**+ 1 840.8**
Total financing	**+ 2 236.8**	**+ 2 251.2**	**+ 2 013.2**	**+ 1 739.9**	**+ 1 750.0**

[1] Excluding the unamortized portion of the change in foreign exchange which has no effect on the government's financial transactions.

LIST OF BORROWINGS BY THE GOUVERNEMENT DU QUÉBEC IN 1986-1987

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer[3]
(in millions)		%			$	%
351.3	250.0 US	9.00*	April 1	2016-04-01	99.50	8.85
100.0[4]		9.50	May 1	2006-05-01	99.12	9.60
157.9	800.0 FF	7.875*	May 22	2001-05-22	100.50	7.67
1.5[5]		9.00/7.50	June 1, 1985	1995-06-01	100.00	—
573.5[4]		8.25/6.50	June 1	1996-06-01	100.00	—
161.5	20 000.0 ¥	6.00*	June 3	1998-06-03	101.75	5.71
8.9[7]		Miscellaneous	Varied	Varied	Miscellaneous	Miscellaneous
0.7	0.5 US	Variable	June 4	1995-12-04	100.00	7.645
120.0		9.25	June 20	1998-06-19	100.18	9.22
125.3	15 000.0 ¥	6.50	June 30	1996-06-30	100.00	6.50
125.0[4]		9.75	July 7	1998-07-07	99.86	9.77
75.0[4]		10.00	July 7	2006-07-07	99.83	10.02
122.0[4]		9.00	September 2	1996-09-02	98.77	9.19
75.0[4]		9.00	September 2	1996-09-02	98.54	9.23
178.0[4]		9.50	September 2	2011-09-02	99.81	9.52
75.0[4]		9.50	September 2	2011-09-02	99.54	9.55
50.0[4]		9.00	September 24	1991-09-24	99.33	9.17
416.7	300.0 US	Variable	October 15	2001-10-15	100.00	5.81
177.2	20 000.0 ¥	6.40	October 31	2009-10-31	100.00	6.40
102.5	125.0 SF	4.875*	November 20	1998-11-20	100.25	4.79
102.5	125.0 SF	5.250*	November 20	2006-11-20	100.50	5.14
414.4	300.0 US	8.625	December 3	2026-12-01	99.60	8.66
60.0[4]		9.50	December 22	2011-09-02	98.79	9.63
190.0[4]		9.00	December 22	1996-09-02	98.92	9.17
50.0		9.00	January 15	1996-09-02	99.50	9.08
150.0		9.00*	January 29	1997-01-29	100.625	8.71
164.0[4]		8.50	February 10	1997-02-10	99.35	8.60
161.0[4]		9.00	February 10	2012-02-10	99.25	9.08
100.0		8.50	March 13	1997-02-10	97.50	8.88
6.9[8]		Miscellaneous	Varied	2006/2007	100.00	Miscellaneous
4 395.8						

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except that marked with an asterisk, which is payable annually.

3 Yield to buyer is determined on the basis of interest payable every six months.

4 The Caisse de dépôt et placement du Québec subscribed fully or partly for these bond issues.

5 Amount cashed from the June 1, 1985 savings bond issue. The interest rate on these bonds was set at 10 % until May 31, 1986. It was brought down to 8.25 % until May 31, 1987, and then to 7.50 % until May 31, 1995.

6 Amount cashed from the June 1, 1986 Québec savings bond issue. The interest rate on these bonds was set at 8.25 % until May 31, 1987, and then at 6.50 % until May 31, 1996.

7 Interest capitalized on four discount borrowings, one of which was issued in June 1982 and the three others in January and February 1985, including $ 6 980 000 referring to borrowings in U.S. dollars.

8 Borrowings from the Government of Canada under the Canada Pension Plan.

N.B.: The gouvernement du Québec has made credit agreements with various banks and financial institutions for a total of $ 1 250 000 000 that can be with drawn in Canadian dollars or their equivalent, up to $ 1 000 000 000 in U.S. dollars or other currencies. At March 31, 1987, the balance available under these agreements was $ 1 180 000 000, which can be withdrawn in Canadian dollars or their equivalent, up to $ 930 000 000 in U.S. dollars or other currencies.

LIST OF BORROWINGS BY HYDRO-QUÉBEC IN 1986

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer[3]
(in millions)		%			$	%
50.0		[4]	January 3	1991-02-18	100.00	9.69
100.0		10.50	January 6	1988-05-06	100.00	10.50
50.0		[4]	January 15	1991-02-18	100.00	9.69
50.0		[4]	February 3	1991-02-18	100.00	9.69
50.0		[4]	February 18	1991-02-18	100.00	9.69
69.3[5]	10 000.0 Y	6.625*	February 28	1994-02-28	101.125	6.34
347.3	250.0 US	8.875	March 1	2026-03-01	99.73	8.90
6.1	10.0 DM	5.65*	April 1	1988-04-01	100.00	5.57
344.4	250.0 US	8.25	April 15	2026-04-15	99.375	8.30
150.0		9.50*	May 1	2001-05-01	100.00	9.28
78.6	125.0 DM	5.50*	May 1	2996-05-01	100.00	5.43
94.3	150.0 DM	6.00*	May 1	2016-05-01	100.00	5.91
100.0		9.00	July 22	1990-03-13	100.00	9.00
150.0		9.25*	July 31	1996-07-31	100.875	8.91
62.4	75.0 SF	4.75*	August 19	1994-08-19	100.00	4.69
100.1	72.0 US	8.175*	August 21	1996-08-21	100.00	8.01
552.3	400.0 US	[7]	September 9	[7]	100.00	—
65.0		9.50	November 4	1994-11-04	98.90	9.70
25.0		9.25	November 28	1989-11-28	100.00	9.25
265.0[6]		9.25	December 2	1996-12-02	98.55	9.48
100.0		9.25	December 2	1996-12-02	100.54	9.17
2 809.8[8]						

* Interest payable annually.

[1] Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

[2] Interest payable semi-annually, except that marked with an asterisk, with is payable annually.

[3] Yield to the buyer is determined on the basis of interest payable every six months.

[4] Variable rate equal to the yield on 91-day Canada Treasury bills increased by 0.50 %. These issues are not guaranteed by the gouvernement du Québec.

[5] Issue under long-term exchange contract.

[6] The Caisse de dépôt et placement du Québec subscribed partly for this bond issue.

[7] Notes bearing interest at variable rates, based on LIBOR + 1/16 %, without fixed maturity.

[8] This total does not include $ 1 905 000 in capitalized interest on borrowings issued at high discount.

N.B.: At December 31, 1986, Hydro-Québec had a credit agreement of $ 750 000 000 available in U.S. dollars or the equivalent in Canadian dollars.

APPENDIX F

Health and Post-Secondary Education: Evolution of Expenditure and Financing

Introduction 3

Expenditure and sources of financing 3

- Increasing imbalance 3
- Own-source revenue of establishments 8

Main causes of increase in health expenditures 9

- Institutional framework 11
- Technological advances 13
- Demographic changes 13
- Other factors in growth of service costs 14
- Principal observations concerning health care costs 17

Main causes of increase in post-secondary education expenditures 18

A new equilibrium 22

Addendum

Withdrawal of the federal government 24

Introduction

Although much remains to be done, Québec's public finances are on the road to recovery. The improvement is apparent in many regards. The reduction in the deficit and the slowdown in the growth of the debt are two encouraging aspects. Also, as can be seen from Appendix E on the government's financial position, for the first time in several years the level of investment of the whole of the public sector is essentially the same as that of its borrowings.

Despite these improvements, certain problems remain. The government's total debt continues to grow more rapidly than the economy as a whole. The budgetary deficit must be brought down below $2 000 000 000 so that the debt service will increase at the same rate as our ability to pay. The debt is much higher than in the other provinces. The tax effort level is still too high, particularly in view of the American tax reform.

With regard to expenditure, two major fields of government activity continue to be of concern: health and post-secondary education. In both cases, government cutbacks at the beginning of the 1980s slowed down increases in expenditures. However, expenditure in these fields continues to rise more rapidly than other government expenditures (excluding the debt service), which does not help the establishments given the considerable operating difficulties they are experiencing.

The government is committed to responding more adequately to the needs in these fields, without however assuming responsibility for all the difficulties. In 1987-1988, the increase in expenditure in the health sector will be 8.9% and for post-secondary education, 7.5%. The work done by the Minister of Health and Social Services, by the Commission on Québec's health system, headed by Dr. Jean Rochon , and, in the post-secondary education sector, by the Minister of Higher Education and Science will make possible a more adequate estimate of how expenditures should evolve over the coming years. But in any case, it seems clear that the growth in appropriations for these sectors will exceed changes in other expenditures (excluding debt service) and, in the case of health, will be higher than the increase in GDP for the foreseeable future.

At the same time, the federal government is rapidly withdrawing from the financing of expenditures in these two fields. Therefore, Québec must increase the funds devoted to health and post-secondary education not only because of the rapid growth in expenditure but also to compensate reduced federal government contributions.

The purpose of this appendix is to take stock of the increasing imbalance between expenditure requirements and sources of financing in the health and post-secondary education fields. It is a step in launching the public debate which now seems necessary.

Expenditure and sources of financing

Increasing imbalance

The following table illustrates changes in health and post-secondary education expenditures and public sources of financing between 1977-1978 and 1989-1990. These expenditures represent only the funds allocated by the Québec government to health and post-secondary education. They exclude that portion of expenditure financed by the own-source revenue of the establishments[1], on which we only have fragmentary information.

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[1] Example of own-source revenue of establishments: revenue from private and semi-private room supplements, sales of services to other establishments, university fees, revenue from commissioned research.

FINANCING PUBLIC EXPENDITURE FOR HEALTH AND POST-SECONDARY EDUCATION
(in millions of dollars)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Total contributions	4 285	4 846	5 371	6 232	7 187	7 556	8 122	8 709	9 231	9 925	10 770	11 579	12 396
FEDERAL GOVERNMENT													
☐ Established programs financing (EPF) • calculation basis	1 990	2 208	2 468	2 751	3 081	3 262	3 550	3 786	4 052	4 295	4 532	4 748	4 963
• less: value of tax points, including related equalization payments	(1 088)	(1 225)	(1 385)	(1 604)	(1 811)	(1 877)	(1 924)	(2 094)	(2 275)	(2 460)	(2 711)	(2 925)	(3 176)
• financial contribution to EPF	902	982	1 084	1 147	1 270	1 385	1 626	1 693	1 777	1 836	1 821	1 824	1 787
☐ Other specific contributions to health and post-secondary education	87	86	88	94	88	99	105	110	121	137	143	146	149
Total federal financing contribution	989	1 068	1 172	1 241	1 358	1 483	1 730	1 803	1 898	1 973	1 964	1 969	1 936
GOUVERNEMENT DU QUÉBEC													
☐ employer contribution to the health services fund	456	483	521	602	1 275	1 337	1 441	1 509	1 601	1 835	1 947	2 054	2 193
☐ own-source revenue corresponding to tax points included in EPF calculation	1 088	1 225	1 385	1 604	1 811	1 877	1 924	2 094	2 275	2 460	2 711	2 925	3 176
☐ other contributions	1 752	2 069	2 293	2 785	2 743	2 859	3 027	3 303	3 457	3 657	4 148	4 631	5 091
• TOTAL contributions from the gouvernement du Québec[1]	3 296	3 777	4 199	4 991	5 829	6 073	6 392	6 906	7 333	7 952	8 806	9 609	10 460

[1] Including part of other taxation revenue, of other government own-source revenue, of equalization payments and of other unconditional transfers from the federal government (excluding financial contribution to EPF), as well as a portion of the deficit.

In 1987-1988, Québec government expenditure in the health ($8 000 000 000)[2] and post-secondary education ($2 800 000 000)[3] sectors will rise 8.9% and 7.5% respectively, compared to 1986-1987, and, combined, will represent 40.9% of the government's "primary" spending (that is government expenditure excluding interest on the debt).

How did we come to have such a level of expenditure, and what does the future hold in store? The graph and the table that follow show what has been happening over the past ten years, and what present trends indicate between now and 1990.

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[2] Including health expenditures imputed to health and social service establishments, Régie de l'assurance-maladie expenditures (excluding health assistance expenditures for social aid recipients) and various other expenditures. Expenditures presented here are government expenditures and differ from the total expenditures usually indicated, which also include private sector expenditures.

[3] Including expenditures incurred by the ministère de l'Enseignement supérieur et de la Science and by other departments for higher education (ex: payments to municipalities by the ministère des Affaires municipales, compensation in lieu of taxes on college and university buildings, etc.). Excluding spending financed by own-source revenue of establishments.

CHANGES IN EXPENDITURE FOR HEALTH AND POST-SECONDARY EDUCATION COMPARED TO GDP AND THE CONSUMER PRICE INDEX (compound annual growth rate as a percentage)

	Government expenditure				
	Health[1]	Post-secondary education	Other expenditure[2]	GDP	CPI
1977-1978 to 1981-1982	14.2	12.6	12.4	12.2	10.2
1981-1982 to 1986-1987	6.8	6.2	5.5	6.9	5.8
1977-1978 to 1986-1987	10.0	9.0	8.6	9.2	7.7
1986-1987 to 1989-1990[F]	8.0	6,9	3.0	7.2	3.9

F: Forecast

[1] Adjusted health expenditures of establishment deficit.

[2] Excluding the debt service.

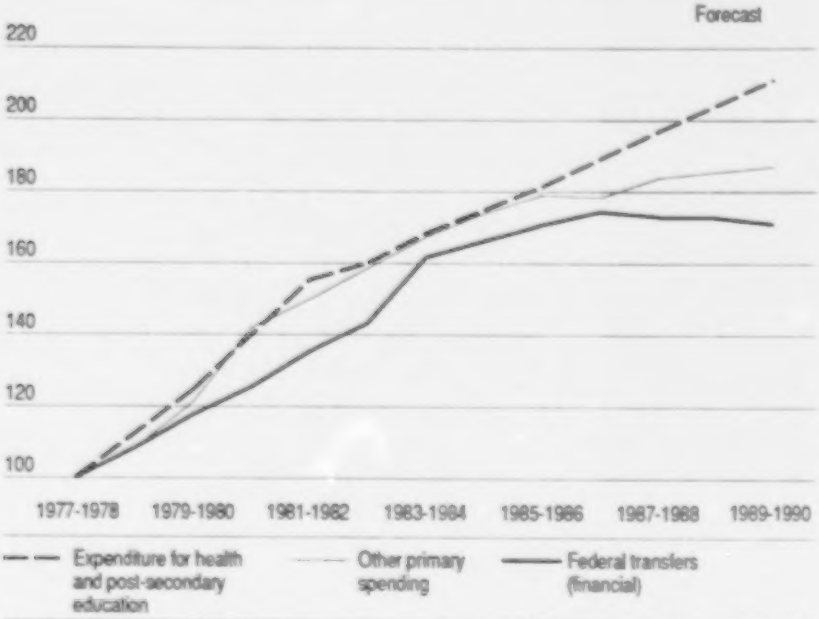
Three major points emerge:

(a) As a result of the measures adopted by the government to cope with the economic recession, there was a marked slowdown in the growth of health and higher education expenditures during the 1981-1982 to 1986-1987 period, compared with 1977-1978 to 1981-1982. This downturn was achieved through stringent control measures covering remuneration and staff in both sectors and all indications are that such measures will be more difficult to envisage in the future.

(b) Since 1977-1978, health and post-secondary education expenditures have gone up a little faster than the trend observed in other primary expenditures. This gap will grow increasingly wider since, over the next three years, appropriations for health will rise 8% per year and for higher education, 6.9% per year, compared with 3.0% for other expenditures, excluding the debt service.

(c) Finally, since 1977-1978, the rate of growth of the federal government's financial contribution has not risen at the same rate as health and post-secondary education expenditures. Beginning in 1986-1987, the year Bill C-96 came into effect, these rates became strongly divergent.

GROWTH INDEX



This strong growth in public spending for health and post-secondary education is not peculiar to Québec. It is found in most industrialized countries, including the United States and European nations. In these countries, it is accompanied by increases, often steep, in rates and contributions to various public and private insurance funds. Although employer contributions to the health services fund have been raised in recent years, this is not the case in Québec. The Québec government has had to absorb the imbalance created on the one hand by the rise in expenditures and on the other by the relative drop in the federal government's contribution and limited growth in the establishments' own-source revenue. If nothing is done to change the growth dynamics of expenditure or the sources of financing, this pressure on the Québec government will increase as the years go by.

Since 1982-1983 in particular, the federal government has taken certain steps to gradually withdraw from health and post-secondary education financing.[4] It dropped revenue guarantee payments in 1982, imposed a ceiling on the federal contribution to higher education funding by passing Bill C-12 in 1983 and, with Bill C-96, modified the connection between the increase in the federal government's total contribution and economic growth, which means a loss for Québec of nearly $6 000 000 000 during the decade ending in 1991-1992. Given these measures, total financial transfers to Québec from the federal government and the tax points that the federal government considers to be transfers will drop from 48.5% of expenditures in 1977-1978 to 41.2% in 1989-1990.

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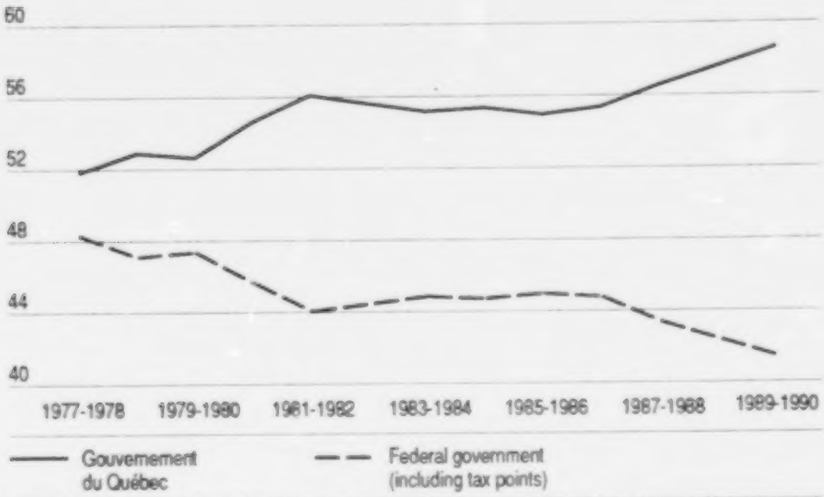
[4] See addendum for further details.

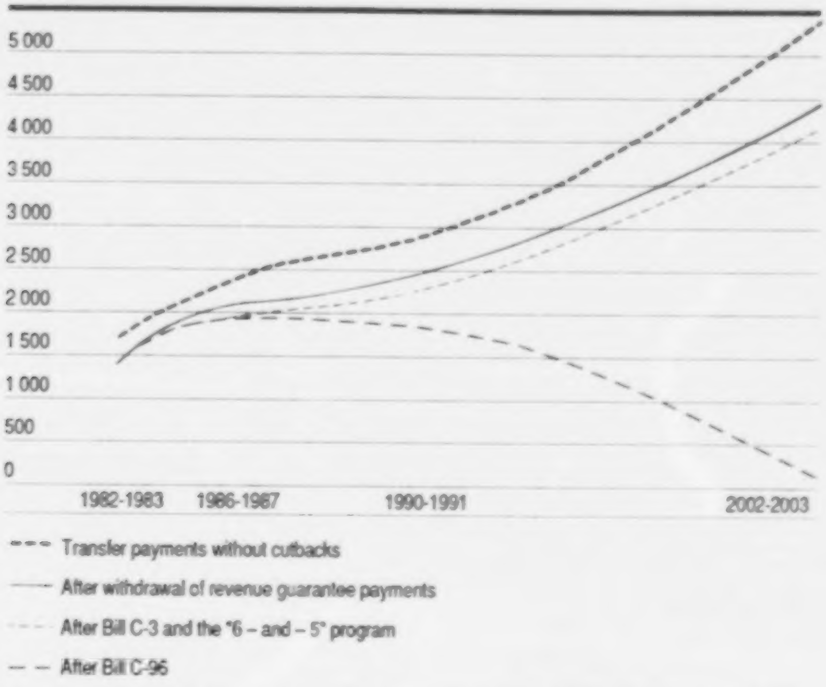
CHANGES IN QUÉBEC AND FEDERAL GOVERNMENT CONTRIBUTIONS[1]
(as a percentage of expenditure)



[1] The federal contribution includes all financial transfers and the value of tax points which Ottawa considers to be transfers.

In addition, not only does the federal contribution, when looked at in this way, tend to drop rapidly, but the only portion of the contribution that is in fact entered as federal expenditure, i.e. financial transfers, is disappearing from view. This portion amounted to 23.1% of expenditures in 1977-1978 and by 1989-1990 will have dropped to 15.6%. This trend has increased since the adoption of Bill C-96 because, under the provisions of this Bill, tax points will gradually replace what the federal government designates as its total contribution to health and education. At this rate, within 15 years the federal government's budgetary expenditure under EPF will be nil and the post-secondary education expenditures will have to be fully financed by the Québec government and from the establishments' own-source revenue.

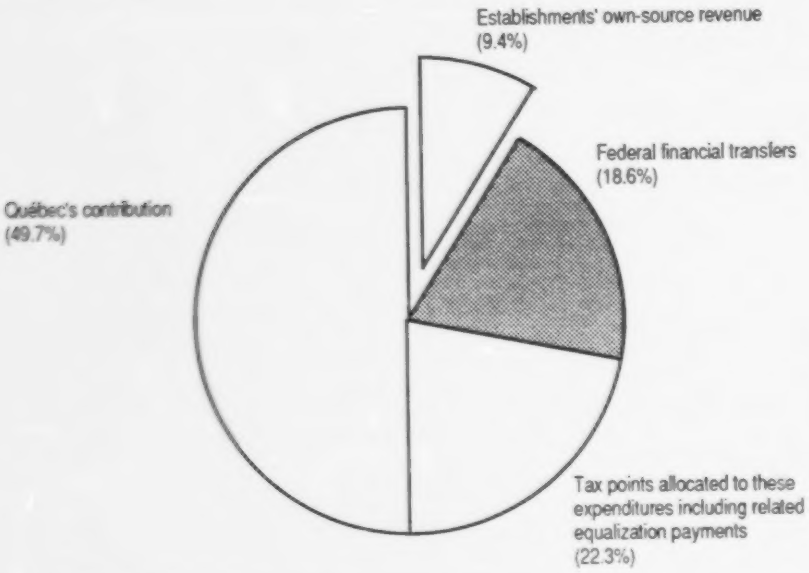
CHANGES IN EPF FINANCIAL TRANSFERS
(in millions of dollars)



Own-source revenue of establishments

Own-source revenue of the establishments is the revenue from sources other than subsidies paid by the Québec government. Available figures are at present very fragmentary; it can nevertheless be estimated that in 1985-1986 they were something in the region of $959 000 000, $604 000 000 for health establishments and $355 000 000 for higher education institutions. On this basis, the establishments' own-source revenue in 1985-1986 would have been only about 9.4 % of expenditures financed by the governments and establishments.

BREAKDOWN OF SOURCES OF FINANCING OF EXPENDITURE FOR HEALTH AND POST-SECONDARY EDUCATION

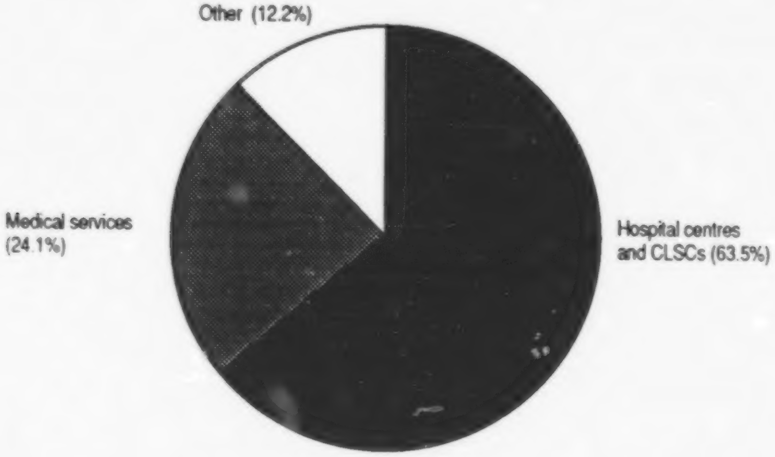


This revenue has not increased much over the past few years. In the health sector, only the cost of private and semi-private rooms in hospital centres and reception centres has risen in three years, and these prices are now increased annually according to the Québec pension index. In the higher education sector, fees have been frozen for 20 years. This situation creates an even greater imbalance between program cost dynamics and financing.

Main causes of increase in health expenditures

Public health spending in Québec grew by 137% between 1977-1978 and 1986-1987, compared to a 121% rise for GDP. About two thirds of health expenditures are allocated to the operations of hospital centres and CLSCs, while medical services account for almost one quarter. The rest consists of expenditures on health services provided in reception, accommodation and rehabilitation centres, grants for capital expenditures and debt service, funds for regional coordination and the department's administrative expenditures.

BREAKDOWN OF HEALTH EXPENDITURE IN QUÉBEC 1987-1988



The Québec government's budget for health expenditures,[5] as summed up in the following table, includes the health component of the budget of the ministère de la Santé et des Services sociaux, as well as the expenditures of the Régie de l'assurance-maladie, excluding insured health-assistance expenditures for social aid recipients. To this must be added the amounts in lieu of municipal taxes paid by the ministère des Affaires municipales on behalf of health establishments as well as the payment by the ministère des Finances of the health network's accumulated deficit.

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[5] Identifying budgets allocated to health in Québec poses the practical problem of identifying the line between social service expenditures and health-care spending. The concepts used here are those defined by the federal-provincial committee in the context of the renewal of the 1981 fiscal arrangements. Under social expenditures, they consider any shared-cost expense under the Canada Assistance Plan (CAP).

QUÉBEC PUBLIC HEALTH EXPENDITURES
(in millions of dollars)

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Net expenditures of programs													
☐ Operating costs of CLSCs and hospitals	1 926	2 231	2 434	2 779	3 202	3 826	4 020	4 197	4 386	4 670	5 084	5 425	5 766
☐ Medical services	734	819	966	1 120	1 220	1 212	1 407	1 514	1 665	1 798	1 933	2 111	2 302
☐ Other health expenditures	421	458	516	550	697	600	652	700	752	910	982	1 081	1 182
☐ 1987-1988 Budget measures	—	—	—	—	—	—	—	—	—	—	22	18	19
☐ Remedial measures for establishments' deficits	19	17	10	109	162	−121	−127	24	22	− 25	− 15	−16	− 13
Total public health expenditures[1]	3 100	3 519	3 927	4 559	5 281	5 517	5 952	6 435	6 824	7 353	8 005	8 619	9 257
Growth rate		13.5%	11.6%	16.1%	15.8%	4.5%	7.9%	8.1%	6.0%	7.7%	8.9%	7.7%	7.4%
Primary expenditures[2]	11 442	12 586	14 140	16 789	18 645	19 949	21 501	23 140	24 341	24 905	26 329	27 607	28 760
Growth rate		10.0 %	12.3 %	18.7 %	11.1 %	7.0 %	7.8%	7.6 %	5.2 %	2.3 %	5.7 %	4.9 %	4.2 %
Growth in GDP		11.8 %	11.4 %	11.6 %	13.8 %	5.0 %	7.6 %	8.0 %	7.3 %	6.7 %	7.7 %	6.6 %	7.1 %

[1] The total does not correspond to the sum of its component elements due to rounding.

[2] Total government expenditures, excluding debt service.

These figures show that, for the period 1982-1983 to 1986-1987, spending rose by some 7.4% per year, in large part because of the cost of medical services (10.4%) and other health expenditures (10.8%). At this rate, these two expenditure categories will double every seven years.

The growth in overall health spending in Québec can be traced to many factors and to their interaction. These factors have been grouped here into four categories: the institutional framework, technological advances, demographic changes and other factors in the growth of service costs.

Institutional framework

The hospital insurance and health insurance plans

The current hospital insurance and health insurance plans provide universal free access for all Quebecers to all necessary medical care. This means that the demand for medical and hospital services is not significantly influenced by the real cost of services.

Other demand-related factors have become preponderant, such as the growth and aging of the population, and the individual's uncertainty concerning his state of health and expectations with respect to the means available to modern medicine to treat problems. The effective use of hospital and medical services, when the usual constraint of the price mechanism does not apply, will essentially depend on access by the various professionals to available medical, hospital and institutional resources, various professionals' perception of what is the "best" system of care, given existing technological capabilities, and the professional interests of those involved.

The choice with respect to accommodation and extended care for the elderly

For several years, Québec public health spending has been concentrated in the high-priority sectors of accommodation and extended care for the elderly. Over the past few years, Québec has developed an extensive public network of reception centres and extended care establishments and has set aside a large proportion of beds in short-term care hospitals for extended care. In 1984-1985, it is estimated that extended care beds and beds in reception centres accounted for 51.3% of the capacity of short-term, extended care and psychiatric care hospital centres.

SPREAD BETWEEN PER CAPITA HEALTH EXPENDITURE IN QUÉBEC AND IN ONTARIO, 1985[1]
(as a percentage)

	Public expenditure	Private expenditure	Total expenditure
Establishment care and other expenditures[2]	+ 13.8 %	– 23.3 %	+ 7.1 %
Professional services, drugs and appliances[3]	– 26.3 %	– 56.1 %	– 35.7 %
Other	– 13.2 %	– 28.8 %	– 25.0 %
Total health expenditure	+ 2.7 %	– 34.3 %	– 8.1 %

Source: Ministère de la Santé et des Services sociaux, January 1984.

[1] Public expenditure includes the expenditures of the federal, provincial and local governments.

[2] Other expenditures include spending by CRSSSs and CLSCs, administration costs, capital expenditures and others.

[3] Professional services include medical and dental care, optometric services, private nursing care, chiropractic services, osteopathy and podiatry.

N.B.: A (+) sign indicates a per capita overexpenditure in Québec in relation to Ontario, and a (–) sign, the opposite.

Furthermore, on the basis of the latest comparable figures available, public spending on health in Québec (both provincial and municipal government spending) in 1985 was 2.7% more per capita than in Ontario, compared to 15.9% in 1980. This spread was attributable to the Québec government's more extensive involvement. Yet, Ontario allocated 34.3% more per capita to private health spending than Québec, essentially because of extra billing by Ontario physicians and the larger proportion of the Ontario population covered by private dental care and drug insurance plans.

BREAKDOWN OF PER CAPITA HEALTH EXPENDITURES IN QUÉBEC AND ONTARIO BY TYPE OF EXPENDITURE AND GOVERNMENT SHARE OF FINANCING, 1985

	Québec			Ontario		
	Overall per capita spending	Per capita government expenditure	Government financing as a % of total	Overall per capita spending	Per capita government expenditure	Government financing as a % of total
Institutional care and other expenditures	$ 1 065	$ 927	87.0%	$ 994	$ 814	81.9%
Professional services	$ 268	$ 210	78.4%	$ 417	$ 285	68.3%
Drugs and equipment	$ 162	$ 46	28.4%	$ 216	$ 53	24.5%
Total	**$ 1 495**	**$1 183**	**79.1%**	**$ 1 627**	**$ 1 152**	**70.8%**

Sources: Ministère de la Santé et des Services sociaux; Ministère des Finances du Québec.

In 1985, per capita public and private-sector spending for health totalled $1 495, 8.1% less than in Ontario. However, the Québec government's share of such spending was higher: it accounted for 79.1% of the total, compared with 70.8% in Ontario.

Technological advances

Medical technology provides health professionals with additional tools, and gives individuals the hope of restored health. It can therefore have the following impact on both the supply of and the demand for medical services.

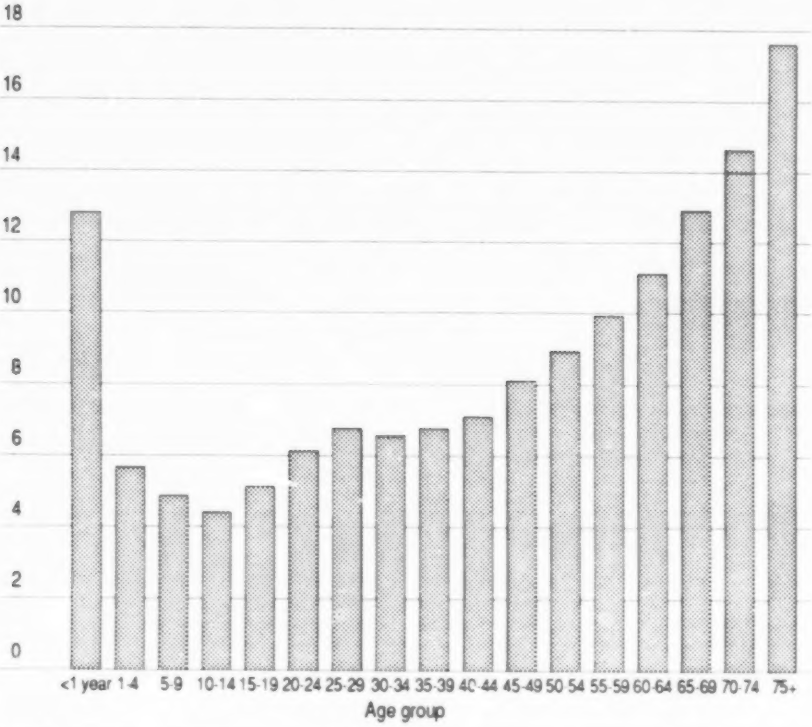
- The successes achieved by medical technology have reduced mortality rates and increased life expectancy.
- It has meant greater recourse to medical solutions beyond the traditional realms of medicine, attacking problems related especially to living habits, the environment, the stress of modern living, anxiety, psychological and emotional problems and even athletic performance "problems".
- Although medical technology has resulted in lower average costs for some diagnostic and therapeutic treatments, the total costs of the system continue to rise under the pressure of greater numbers of patients and a greater variety of treatments.
- Continuing technological progress has resulted in institutional demand for capital expenditures and costly equipment.

Demographic changes

Current demographic changes strongly affect the demand for health services, especially because of the rapid aging of the population.

Typically, heavy use is made of health care services — especially medical services — immediately after birth, followed by a marked decline, then a gradual increase during middle-age, culminating in accelerated use from about the age of 50. The elderly, who accounted for 9.6% of the population in 1985, used 19% of medical services. The same phenomenon prevails for hospital services. In Canada, it is estimated that the population 65 and over consumed 50% of all patient-days in hospitals and generated about 40% of hospitalization costs.

NUMBER OF MEDICAL SERVICES PER CAPITA
By age group — 1985



Between 1986 and 2006, the Québec population over 65 should grow 6.6 times faster than the population as a whole, reaching 14% of the total population. On the basis of certain estimates[6], and assuming a constant utilization profile, the increase in the population and the change in the age structure alone could mean a 1.5% average annual increase in hospitalization costs. Moreover, it is estimated that the cost of medical services will rise 0.8% annually over the same period, because of the same factors. It is striking to note that, at a time when such uncontrollable factors are nudging health service costs upward, the federal government has chosen to cut back its contribution in this sector through Bill C-96.

Other factors in growth of service costs

The cost of medical services

Remuneration for services provided by physicians accounts for roughly 25% of public health care costs. However, physicians are the driving force in the health system as it is they who decide what care is required, and because of the consequences of their decisions. It can, therefore, be expected that changes in the availability of doctors and medical practice will strongly affect overall health spending.

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[6] Statistics Canada, *A Prognosis for Hospitals*, 1967-2031.

An analysis of "patient-contacts" is revealing: such contacts encompass all examinations, consultations, psychiatric treatment sessions and surgery. Between 1971 and 1985, the average annual increase in patient-contacts, i.e. 3.6%, paralleled the increase in the number of doctors, i.e. 3.7%. At the same time, the general population rose by an average of only 0.65% a year, 5.7 times slower than the growth in the number of physicians. Moreover, when the number of doctors grew most rapidly, between 1971 and 1976 (6.3%), the number of patient-contacts also grew most rapidly (5.6%). At present, it appears that the supply of medical services creates its own use of medical services and adjusts to the increase in their supply.

VARIABLES EXPLAINING CHANGES IN THE COST OF MEDICAL SERVICES
(compound annual growth rate as a percentage)

	Population	Physicians	Patient-contacts[1]	Weighted average rate increase	Slippage[2]	Average cost of patient-contacts
1971-1976	0.68	6.3	5.6	0.2	4.4	4.6
1976-1981	0.65	2.8	2.9	6.1	−0.2	5.9
1981-1985	0.61	1.7	1.9	5.6	0.9	6.5
1971-1985	0.65	3.7	3.6	3.8	1.8	5.6

[1] Patient-contacts paid on a fee-for-services basis.

[2] Spread between average weighted increases and rise in the average cost of patient-contacts.

Sources: Annual statistics for 1985, Régie de l'assurance-maladie du Québec, Ministère de la Santé et des Services sociaux, Ministère des Finances.

Moreover, between 1971 and 1985, the average cost of patient-contacts paid on a fee-for-services basis rose by an average of 5.6% a year, or 1.8 percentage points more than the fee increases granted by the government. Within the medical profession, there was significant "slippage" toward more costly medical services.

This suggests that the greater availability of doctors is a major factor in the rise in the consumption and cost of health services. Between 1980 and 1984, the overall number of physicians receiving all forms of remuneration rose by about 4.0% a year among general practitioners and 1.5% among specialists. At the same time, the increase in and aging of the population would normally have dictated that the use of medical services increase by approximately 1.0%.

Despite a general improvement in the number of medical practitioners, shortages still exist in certain fields of specialization, and are fairly widespread in many outlying regions. Such internal imbalances have led the government to adopt remedial measures such as incentives, bonuses and scholarships for physicians who agree to work in outlying regions, bonuses for travelling physicians and for night work and so on. Such measures place an additional burden on health care costs.

The cost of hospital services

Together, demographic changes and emphasis placed on housing and extended care for the elderly have led to a significant increase in the use of hospital care.

The most recent data available reveal that between 1979-1980 and 1984-1985, the number of elderly people over 65 housed in extended care hospitals or in reception centres increased by 24.4%, while the total number of people housed rose by 17.6%. The number of elderly people increased by 16.5%. As a result, in 1984-1985, elderly people 65 and over occupied 71.6% of all beds and available space in extended care hospitals and reception centres; the figure is rising. The increase, in particular, of the percentage of elderly people 75 and over being housed, appears to have considerably augmented the clientele of these establishments, as elderly patients need more extensive and costly care. Overcrowding has led some of the elderly to seek care in other facilities, such as short-term care hospitals.

FACTORS IN THE GROWTH OF THE TOTAL NUMBER OF PEOPLE AGED 65 AND OVER ACCOMMODATED IN EXTENDED CARE HOSPITAL CENTRES OR RECEPTION CENTRES, AND OTHER DEMOGRAPHIC INDICATORS, FROM 1979-1980 TO 1984-1985
(in thousands)

	1979-1980	1984-1985	% Change
Population	6 288.9	6 549.0	4.1%
Number of people aged 65 and over	530.2	617.5	16.5%
Total number of people accommodated	51.4	60.5	17.6%
Number of people accommodated, aged 65 and over	34.8	43.3	24.4%

Sources: Ministère de la Santé et des Services sociaux, "Le système de santé et de services sociaux au Québec", 1985; Bureau de la statistique du Québec; Ministère des Finances du Québec.

At the same time, in short-term care hospitals, the number of hospital-days per 1 000 inhabitants rose by 9.3% between 1979-1980 and 1984-1985. As the following table indicates, the occupancy rate of hospital beds increased (7.7%), since the number of beds remained more or less stable (1.4%). Moreover, the length of the average hospital stay rose by 14.6%, particularly as a result of aging among beneficiaries. Consequently, the number of admissions per bed dropped by 5.9%.

CHANGES IN USE AND AVAILABILITY OF RESOURCES IN SHORT-TERM CARE HOSPITAL CENTRES – 1979-1980 TO 1984-1985 (Growth rate as a percentage)

	Hospital centres
Hospital days/1 000 inhabitants	+ 9.3
Beds and accommodations/1 000 inhabitants	+ 1.3
Rate of occupancy	+ 7.7
Average stay	+ 14.6
Admissions per bed	– 6.0

Sources: Ministère de la Santé et des Services sociaux, "Le système de santé et de services sociaux au Québec", 1985; Ministère des Finances du Québec

The increase in the number of elderly patients occupying hospital beds for relatively long periods in short-term care institutions has made it harder for other patients to gain admittance to such hospitals. Internal tension has been created, obliging health professionals to delay admissions or hasten the treatment of short-stay patients. Moreover, as costs in short-term care hospitals are considerably higher than stays in other types of institutions, housing the elderly in these establishments for varying periods puts a considerable strain on health-care budgets.

Principal observations concerning health care costs

The preceding analysis explains why, in recent years, the government has had to substantially increase the budgetary base of hospitals, absorb appreciable deficits and grant a form of indexing to take into account technological change, to deal with the effects of aging and to gradually develop alternatives to housing the elderly in institutions, for instance through home-care services. To deal with crowding in emergency clinics, clear evidence of tensions whose causes are numerous and complex, the government has had to allocate, beginning in 1986-1987, supplementary operating budgets which will represent $115 000 000 beginning in 1988-1989, and an additional $94 000 000 for capital expenditures and equipment excluding the measures included in tonight's Budget.

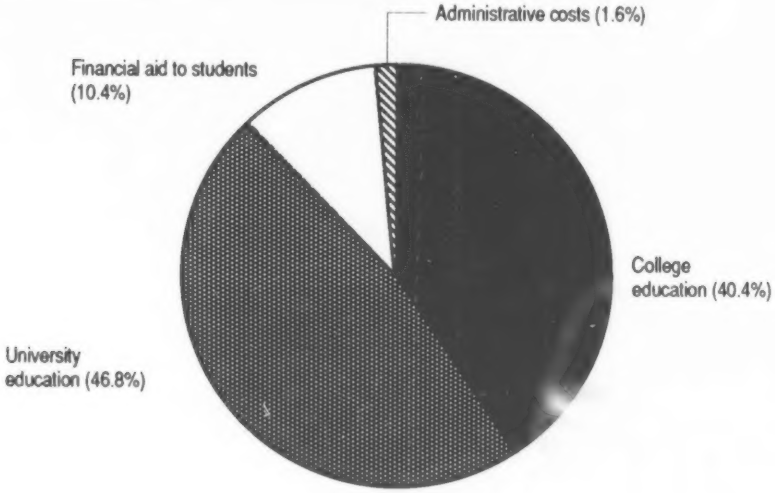
Sharp increases in the allocation of funds to health services in relation to other expenditures and the growing imbalance between these expenditures and sources of financing are a matter of constant concern to the government.

In recent years, the aging population, changes in medical practice, technological changes, limited financial participation by the private sector and emphasis on housing and extended care for the elderly have all contributed to exerting very strong pressure on the current program of expenditures and promoting the development of new services. Because the federal government has withdrawn financing for established programs, the government has had to respond to the most pressing demands, partly through supplementary funds, and partly through more productive use of existing human and physical resources. None of the factors contributing to the current situation is likely to disappear in the coming years. It is, therefore, very likely that health costs will continue to put pressure on government spending.

Main causes of increase in post-secondary education expenditures

In 1987-1988, the Québec government will allocate $2 800 000 000 to post-secondary education.[7] Colleges will receive 40.4% of this amount and universities, 45.2%. The remainder will be earmarked for student assistance (10.4%) and the government's administrative costs (1.6 %).

BREAKDOWN OF GOUVERNEMENT DU QUÉBEC
CONTRIBUTION TO POST-SECONDARY EDUCATION—1987-1988



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[7] The figures only represent funds allocated by the Québec government to post-secondary education. They exclude expenditures financed through institutions' own-source revenue. In addition to expenditures made by the ministère de l'Enseignement supérieur et de la Science, they include various expenditures effected by other government departments with respect to post-secondary education: compensation paid by the ministère des Affaires municipales to municipalities, in lieu of property taxes on buildings belonging to colleges and universities; grants provided by the ministère des Affaires culturelles to conservatories of music and dramatic arts; funds earmarked by the ministère de l'Agriculture, des Pêcheries et de l'Alimentation for agricultural training and research in institutes of agricultural technology; funds devoted to health research by the Fonds de recherche en santé du Québec, part of the ministère de la Santé des Services sociaux; grants made by the ministère du Tourisme to the Institut de tourisme et d'hôtellerie; and funds allotted by the ministère de la Main-d'oeuvre et de la Sécurité du revenu to adult training.

CONTRIBUTION OF THE GOUVERNEMENT DU QUÉBEC TO POST-SECONDARY EDUCATION
(in thousands of dollars)

	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988F	1988-1989F	1989-1990F
COLLEGE EDUCATION													
1. Public colleges													
• Operating expenses	407 871	485 628	482 045	567 531	684 136	729 340	766 502	787 632	774 410	859 918	886 001	933 258	984 527
• Investments and debt service	47 796	61 408	53 825	64 198	67 639	64 468	72 641	79 285	93 489	94 358	131 279	139 828	147 484
Subtotal	455 667	547 036	535 870	631 729	751 775	793 808	839 143	866 917	867 899	954 276	1 017 280	1 073 086	1 132 011
2. Private colleges	33 349	36 600	39 423	48 242	51 628	56 181	78 110	65 620	68 392	76 395	83 931	89 698	97 730
3 Other institutions	7 228	7 859	8 900	10 443	11 671	12 449	12 667	13 913	14 433	15 608	15 361	16 091	16 805
Subtotal for college education	496 244	591 495	584 193	690 414	815 074	862 438	929 920	946 450	950 724	1 046 279	1 116 572	1 178 875	1 246 546
UNIVERSITY EDUCATION													
1. Operating expenses and specific research grants	553 635	596 736	698 556	780 129	853 202	914 965	918 181	961 586	1 044 523	1 108 285	1 182 559	1 273 811	1 347 203
2. Investments and debt service	38 825	41 580	44 855	52 904	64 919	60 767	80 017	80 170	88 986	97 893	110 952	115 395	125 620
Subtotal for university education	592 460	638 [illegible]6	743 411	833 033	918 121	975 732	998 198	1 041 756	1 133 509	1 206 178	1 293 511	1 389 206	1 472 823
FINANCIAL ASSISTANCE TO STUDENTS	77 017	77 005	94 880	125 857	146 980	172 536	211 154	252 425	284 062	277 900	286 367	315 019	352 020
ADMINISTRATIVE EXPENSES	18 970	19 807	21 788	23 763	25 496	28 903	31 384	33 243	38 439	41 497	43 900	46 080	48 187
1987-1988 Budget measures											24 600	30 200	19 600
GRAND TOTAL	**1 184 691**	**1 326 623**	**1 444 272**	**1 673 067**	**1 905 671**	**2 039 609**	**2 170 656**	**2 273 924**	**2 406 734**	**2 571 854**	**2 740 350**	**2 929 180**	**3 119 576**
(Growth rate %)		**12,0**	**8,9**	**15,8**	**13,9**	**7,0**	**6,4**	**4,8**	**5,8**	**6,9**	**6,6**	**6,9**	**6,5**

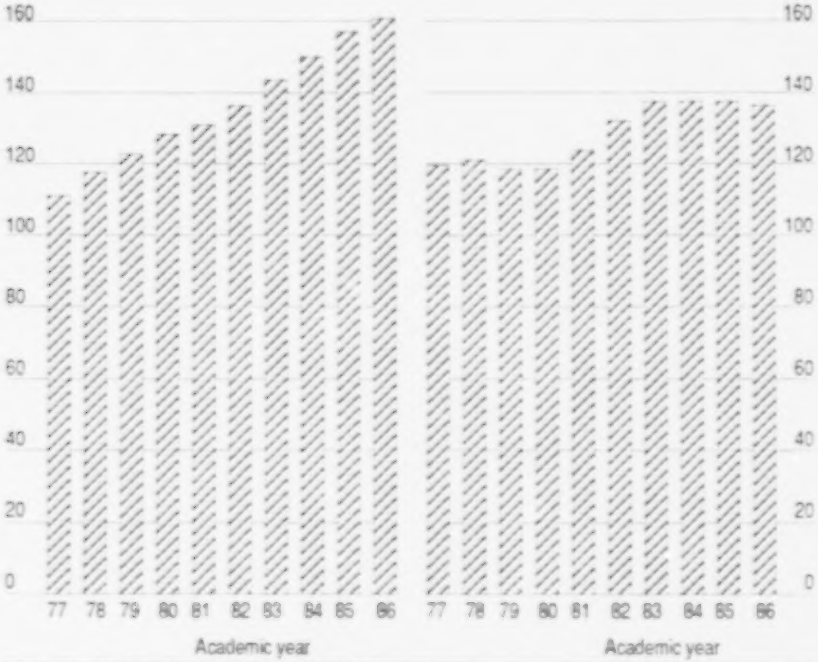
F: Forecast

Sources: Ministère de l'Enseignement supérieur et de la Science;
Secrétariat du Conseil du trésor;
Ministère des Finances.

The post-secondary education sector has been characterized by a considerable growth in student numbers over the past ten years, particularly at the university level. Between 1977-1978 and 1986-1987, the number of "equivalent-full-time" students in Québec universities rose from 111 095 to 161 009, a 44.9% increase. The rise was less substantial in the colleges, where the number of students levelled off in 1984-1985 at 137 056, dropping to 136 450 in 1986-1987. College enrolment in 1986-1987 was, nonetheless, 15% higher than in 1977-1978.

ENROLMENTS
(thousands of students)

University education **College education**



Source: Ministère de l'Enseignement supérieur et de la Science

In addition to demographic factors, increased enrolments in higher education are attributable to the difficult economic situation which affected Québec and other Western nations in the early 1980s. Faced with a labour market offering few job opportunities, young people decided to undertake post-secondary studies or return to them, or obtain further training.

As a result of the sharp increase in enrolments, university attendance in Québec is now almost on a par with that in Ontario. In 1980-1981, 8.7% of Quebecers between 18 and 29 were attending university; in 1986-1987, this figure had risen to 11.0%. In Ontario, on a comparable basis, university attendance among 18 to 29-year olds only increased from 10.7% to 11.7% over the same period.

The sharp upturn in enrolments may also have been partly influenced by procedures for determining grants to the universities. In recent years, budget cutbacks and existing financing formulas encouraged universities to adopt strategies centred on increasing enrolments in order to obtain additional funds associated with the arrival of new students. As a result, the universities created new programs or courses, some of which may have done little to enhance the quality of university training.

Increased enrolments coupled with the difficult economic conditions existing in the early 1980s resulted in a substantial increase in the amounts earmarked for assistance to post-secondary students over the past 10 years, from 6.5 % of Québec government contributions to post-secondary education in 1977-1978 to 10.8 % in 1986-1987.

Throughout this period, the number of new student loans grew by 83% and their average value increased by 111% compared with 95% for the consumer price index. The number of scholarships almost doubled, too, while their average value rose by 106%. Given the scarcity of jobs, student incomes were lower, thus making them eligible for larger loans or scholarships. This phenomenon resulted in the interest paid on outstanding loans increasing from $11 600 000 in 1977-1978 to $59 900 000 in 1986-1987, a 416% increase; overall outstanding loans rose by 373%, from $120 000 000 to $567 000 000.

Québec's student assistance plan is currently recognized as one of the most generous in North America, in terms of the balance it strikes between loans and scholarships, and eligibility criteria.[8] For example, among the provinces, Québec has the lowest ceiling on the amount of the loan enabling a student to be eligible for a scholarship. Moreover, Québec imposes no limit on the period of eligibility for scholarships, whereas in Ontario this period is limited to eight terms.

Although the percentage of Quebecers attending university has increased appreciably in recent years, success rates are still quite unsatisfactory. At the opening session of the parliamentary committee on education last September, the Minister of Higher Education and Science stressed that although university enrolments have grown remarkably in recent years, the number of students in regular Bachelor's, Master's and Doctoral programs has not kept pace. He noted that, in terms of the number of diplomas granted, Québec still lags far behind Ontario. Moreover, enrolments in short programs are much higher in Québec than in the other provinces. In regular programs, drop-out, failure and instability rates are very high.[9]

At present, universities in which research is important are at a disadvantage. Specific research grants to these institutions only cover direct costs such as the purchasing and operation of equipment, technicians' and research assistants' wages, travel and publishing expenses, but do not provide for indirect research costs such as professors' salaries while they are conducting research, grant management, maintenance, energy costs and so on. Universities must cover such costs from their operating grants, which puts those conducting intensive research at a disadvantage.[10]

To conclude, it appears that in post-secondary education, demographic changes should put less pressure on costs than in the health field. The scolarity rates attained in Québec, particularly in adult education, are actually quite high.

However, if Québec aspires to leadership among industrialized nations in terms of technological development and economic spinoffs, it must step up its efforts considerably to further the excellence of its universities. This entails training more students in high-demand sectors at the Master's and Doctoral levels. It must also enable universities to acquire the necessary scientific equipment to ensure that they keep abreast of new developments. It must also foster research in the universities, and closer relations between the universities and the private sector. This is one of the main challenges to be met by Québec society as the 20th century draws to a close. To meet it, it would appear necessary to increase resources in this sector or at least allocate them differently.

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[8] Conseil des universités, Report submitted to the Commission parlementaire de l'éducation sur les orientations et le cadre de financement du réseau universitaire québécois, July 1986, pp. 26-27.

[9] Claude Ryan, "Le gouvernement et l'avenir des universités", text reconstituted from the speech delivered by the Minister of Higher Education and Science at the opening session of the parliamentary committee on education devoted to policy objectives and financing in the universities, September 16, 1986, p. 17.

[10] See Conseil des universités, op. cit., p. 14-15.

This Budget Speech contains measures which acknowledge these problems and begin to tackle them, although the task has yet to be completed.

A new equilibrium

In recent years, budgetary considerations have made it necessary to curtail spending on health and post-secondary education. Although the downturn has been considerably less marked than for other public spending, it has nonetheless exacerbated existing tensions in these sectors. Many establishments have incurred deficits. Various expectations were not satisfied, nor were needs; challenges remain to be met.

The government has already introduced a number of remedial measures; however, other steps will have to be taken to sustain health and post-secondary education programs and to confront with equanimity the challenges of the year 2000. Under present circumstances, the imbalance between changing expenditures and non-government sources of financing can only increase. To reverse current trends and establish a new equilibrium, four solutions must be contemplated immediately.

1 The federal government must fully assume its responsibilities in the financing of these rapid-growth programs now causing problems. To preserve the spirit which presided at the implementation of these programs, the federal government must not withdraw without compensation, as is currently the case, especially since doing so imposes on the least privileged provinces a fairly onerous burden. The federal government should withdraw from these sectors, but offer compensation in the form of additional tax points and allow the provinces to fully exercise their constitutional responsibilities by eliminating the restrictions imposed by Bill C-3. For this reason, the Québec government intends to pursue various measures and discussions with the federal government to convince it to change its mind. The publication of this document is one such measure.

2 Secondly, it is worrisome to note that the major portion of the financing for health services and post-secondary education comes from amounts paid by Québec taxpayers to the Québec government. Such costs will continue to grow and may one day upset the balance of public finances, economic competitiveness and development prospects. Under the circumstances, and given Ottawa's withdrawal, we are led to wonder whether it would not be necessary to bring contributions to financing these public services more closely into line with benefits derived from them. Otherwise, it may prove difficult — or impossible — to maintain the rights to education and health care to which all Quebecers have become attached.

3 Thirdly, in order to better meet needs and challenges in these two fields, rationalization must be pursued. Cutbacks in recent years have unquestionably curbed growth in expenditures incurred over several years, according to a clear overall plan. The work of the Rochon commission on Québec's health care system and that of the Minister of Health and Social services and the Minister of Higher Education and Science represent a move in this direction.

4 Constraints on financing health and post-secondary education must be systematically elucidated. Consequently, the government is contemplating periodically tabling a special report on financing health and post-secondary education costs. The report would indicate:

- overall health and post-secondary education expenditures;
- various sources of revenue specifically allocated to financing this package, i.e. employer contributions, federal financial transfers, revenue from fees and other sources; and,
- the Québec government's residual contribution drawn from its consolidated fund.

The financial statements of various establishments should also be constructed according to uniform accounting standards set out by the Comptroller of Finance.

In this way, Quebecers in general and the various parties involved will be able to more readily perceive changes in the cost of the health services and post-secondary education they receive, ascertain the effects of the federal government's withdrawal from financing programs if it continues, and understand the nature of the measures which must be adopted to fill the gap between the two.

ADDENDUM

The federal government's withdrawal

Expenditure for health and post-secondary education, which are provincial spheres of jurisdiction, have traditionally been jointly financed by the federal and provincial governments. Over the years, the federal government has implemented a variety of financing mechanisms.

Until the mid-1970s, in order to maintain a measure of standardization in health services and post-secondary education available across the country, the federal government made extensive use of its spending power to involve the provinces in programs which, because of the national standards imposed, proved to be extremely costly. Various cost-sharing formulas were originally set up. Although the terms under which the formulas were applied differed somewhat, the basic principle remained unchanged, namely that, on a national basis, the federal government would assume 50% of the cost of these programs.

An overall financing formula, which was not matched to expenditures, came into effect with the 1977-1982 fiscal arrangements. The formula was known as Established Programs Financing (EPF). While the general formula has not been changed, a significant modification was made in the EPF after the renewal of the 1982-1987 fiscal arrangements. The basic contribution of two tax points, which had been included in the EPF to compensate for the withdrawal of the revenue guarantee program during the 1977 negotiations, was eliminated. This decision was vigorously opposed by the provinces, and has led to a revenue shortfall estimated at $3 122 000 000 for Québec from 1982-1983 to 1991-1992.

In addition, the federal government intervened in Established Programs Financing on three occasions between 1982 and 1987.

First, on April 9, 1984, Parliament passed the Canada Health Act (Bill C-3), which provides for financial penalties for provinces which allow extra billing or apply user fees.

Second, Bill C-12, passed on April 12, 1984, profoundly altered the "philosophy" of the EPF by enshrining the allocation of the federal contribution between health and post-secondary education on the basis of the distribution in 1975-1976. The federal government maintained that it was financing more than 50% of provincial post-secondary education expenditures and thus concluded that a ceiling had to be imposed on the growth of its transfers for this field (6% in 1983-1984 and 5% in 1984-1985). However, this action revealed chronic federal under-funding in the health sector where provincial spending was outstripping the federal contribution. This operation overturned the principle of global financing on which the EPF was based and led to reductions in transfers not only for the two years during which it was applied, but also subsequently. In all, from 1982-1983 to 1991-1992, the "6-and-5" program will have cost Québec over $700 000 000.

Finally, Bill C-96, which came into effect April 1, 1986, severed the link between the change in the federal government's total contribution and the growth of the economy. Since then, the general growth formula for payments under the EPF has, in fact, been partially de-indexed. The indexing factor used to calculate federal payments was reduced by 2 percentage points, which resulted in a 3.3% decrease in Ottawa's contribution to health and post-secondary education between 1986-1987 and 1988-1990. The impact of this measure is estimated to be more than $2 000 000 000 for Québec from now till 1991-1992.

IMPACT OF FEDERAL MEASURES ON ESTABLISHED PROGRAMS FINANCING
(in millions of dollars)

	1982-1983	1983-1984	1984-1985	1985-1986	1986-1987	1982-83 to 1986-87	1987-1988^F	1988-1989^F	1989-1990^F	1990-1991^F	1991-1992^F	1987-88 to 1991-92^F	1982-83 to 1991-92^F
Withdrawal of revenue guarantee payments	–218.4	–239.9	–257.9	–276.0	–298.1	–1 290.3	–320.6	–342.3	–364.7	–389.3	–415.6	–1 832.5	–3 122.9
"6 and 5" program		–32.8	–65.7	–70.3	–76.0	–244.8	–81.7	–87.2	–92.9	–99.2	–105.9	–467.0	–711.8
Bill C-96					–81.4	–81.4	–174.0	–277.1	–390.9	–517.3	–657.0	–2 016.3	–2 097.7
Total[1]	–218.4	–272.7	–323.6	–346.3	–455.5	–1 616.5	–576.3	–706.6	–848.5	–1 005.8	–1 178.6	–4 315.8	–5 932.3

F Forecast

[1] The total may not correspond to the sum of its component elements due to rounding.